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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORT
PURSUANT TO SECTIONS 13 OR 15 (d) OF THE
SECURITIES AND EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2002

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.)

10 Mountainview Road
Upper Saddle River, NJ 07458-1937
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (201) 258-8450

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

Securities registered pursuant to section 12(g) of the Act:

Common Stock, $.01 par value
(Title of class)

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 |X| No |_|

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 in the Act.) Yes |X| No |_|

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 7, 2003 was approximately $89,764,902.

The number of shares outstanding of the registrant's common stock, $.01 par value, as of March 7, 2003 was 14,210,205 shares.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

PDI, INC.

Form 10-K Annual Report

TABLE OF CONTENTS

<TABLE>
<CAPTION>

</TABLE>

FORWARD LOOKING STATEMENT INFORMATION

Various statements made in this Annual Report on Form 10-K are "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) regarding the plans and objectives of management for future operations. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements included in this report are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on 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. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of these assumptions could prove inaccurate and, therefore, we cannot assure you that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included in this report, the inclusion of these statements should not be interpreted by anyone that we can achieve our objectives or implement our plans. Factors that could cause actual results to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, the factors set forth under the headings "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

PART 1

ITEM 1. BUSINESS

Summary of Business

We are a commercial sales and marketing company serving the biopharmaceutical and medical devices and diagnostics (MD&D) industries.

We create and execute sales and marketing campaigns intended to improve

the profitability of pharmaceutical or MD&D products. We do this by partnering with companies who own the intellectual property rights to these products and recognize our ability to commercialize these products and maximize their sales performance. We have a variety of agreement types that we enter into with our partner companies, from fee for service arrangements to equity investments in a product or company. In these agreements, we can leverage our experience in:

- sales,
- brand management and product marketing,
- marketing research,
- medical education,
- medical affairs, and
- managed markets and trade relations

to help meet strategic objectives and provide incremental value for product sales.

We have assembled our commercial capabilities through acquisition and internal expansion and they can be applied on a stand-alone or integrated basis. This flexibility enables us to provide a wide range of marketing and promotional options that can benefit many different products throughout the various stages of their life cycles. Our capabilities enable us to take total sales, marketing and distribution responsibility for pharmaceutical and MD&D brands.

It is important for us to form strong partnerships with companies within the biopharmaceutical and MD&D industries. We focus on operational excellence that delivers the desired product sales results. We also assign an account executive to each partner to ensure the partnership is working to the mutual benefit of both parties.

Reporting Segments and Operating Groups

We operate under three reporting segments: PDI Sales and Marketing Services Group, PDI Pharmaceutical Products Group and PDI Medical Devices and Diagnostics Group.

PDI Sales and Marketing Services Group

We are among the leaders in the pharmaceutical sales and marketing services industry in the U.S. We have designed and implemented programs for many of the major pharmaceutical companies serving the U.S. market. Our clients include AstraZeneca, Novartis, GlaxoSmithKline, Aventis, Pfizer and Pharmacia. We have strong relationships built on consistent performance and program results.

Our clients engage us on a contractual basis to design and implement product promotion programs for both prescription and over-the-counter products. The programs in the PDI Sales and Marketing Services Group (SMSG) are designed to increase product profitability and are tailored to meet the specific needs of the product and the client. These services are predominantly provided on a fee for service basis. Occasionally, there is an opportunity for us to earn a bonus incentive if we meet or exceed predetermined performance targets.

Contract Sales

Product detailing involves a representative meeting face-to-face with targeted prescribers and other healthcare

decision makers to provide a technical review of the product being promoted. Contract sales teams can be deployed in one of two ways, either dedicated or shared.

A dedicated contract sales team works exclusively on behalf of one client. The team members do not represent products of other manufacturers and often carry the business cards of the client. The sales team is customized to meet the specifications of our client with respect to the representative profile, physician targeting, product training, incentive compensation plans, integration with clients' in-house sales forces, the call reporting platform and data integration. Without incurring the cost of additional personnel, the client gets a high quality, industry-standard sales team comparable to its internal sales

force.

We offer shared sales teams in order to make a face-to-face selling resource available for those clients that want an alternative to a dedicated team. The PDI Shared Sales teams (formerly our ProtoCall unit) are leading providers of these detailing programs in the U.S. Each team sells multiple brands from different pharmaceutical manufacturers. Because costs are shared among various companies, these programs may be less expensive than programs involving a dedicated sales force. With a shared sales team, the client still gets targeted coverage of their physician audience within the representatives' geographic territories.

Marketing Research

Employing leading edge, often proprietary research methodologies, we provide qualitative and quantitative marketing research to pharmaceutical companies with respect to healthcare providers, patients and managed care customers in the U.S. and globally. We offer a full range of pharmaceutical marketing research services, which include studies to identify the most impactful business strategy, profile, positioning, message, execution, implementation and post implementation for a product. Correctly implemented, our marketing research model improves the knowledge clients obtain about how physicians and other healthcare professionals will 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 to identify critical paths to marketing goals. At each step of the marketing model we offer proven research techniques, proprietary methodologies and custom study designs to address specific product needs.

Medical Education and Communications

Our medical education and communications group provides medical education and promotional communications to the biopharmaceutical and MD&D industries. Using an expert-driven, customized approach, we provide our clients with integrated advocacy development, accredited continuing medical education (CME), promotions, publication services and interactive sales initiatives to generate incremental value for products.

We create custom-designed programs focusing on optimizing the informed use of our clients' products. Our services are executed through a customized, integrated plan to be leveraged across the product's entire life cycle. We can meet a wide range of objectives, including advocacy during pre-launch, communicating disease state awareness, supporting a product launch, helping an under-performing brand, fending off new competition or expanding market leadership.

PDI Pharmaceutical Products Group

Our pharmaceutical products group's (PPG) goal is to source pharmaceutical products in the U.S. through licensing, copromotion or acquisition arrangements.

We have the personnel, skills and resources needed to identify and evaluate potential license, acquisition and copromotion opportunities. Our evaluation includes assessing the market potential of the product opportunity and weighing this against competitive products, the possibility of generic entry, the resources needed to compete and the many other variables that exist in product marketing.

Licensing, copromotion and acquisition arrangements contain a greater level of risk when compared to fee for service agreements, however, there is potential for generating greater revenue at higher margins with longer-term visibility on revenue. PPG's arrangements may be longer in duration and potentially less prone to sudden termination than fee for service agreements. Our partner companies choose to work with us because we have the capabilities to provide a complete commercial solution.

Licensing

Licensing entails taking total commercial responsibility for a product while another company maintains ownership of the intellectual property and the patent on the product. The company from which we license the product would typically retain responsibility for manufacturing the product. In a licensing arrangement, we may make upfront payments and/or royalty payments to our partner company.

We conduct the sales, marketing and distribution functions for the product and we record the product sales in this reporting segment. We are also responsible for medical affairs, certain clinical and regulatory affairs as well as managed care and trade relations. Examples of the licensing agreements that we have entered into are described in the Contracts section of this report.

Copromotion

Copromotion arrangements, a frequently used strategy within the biopharmaceutical and MD&D industries, occur when two companies agree to mutually promote the same product. Each party contributes expenses and resources toward the sales and marketing effort, with the financial risks and rewards shared on a predetermined basis.

Typically, our partner company will manufacture and distribute the product, and be responsible for regulatory, medical affairs as well as managed care and trade relations. We may exercise significant control over the sales and marketing strategy for the product. Examples of the copromotion agreements that we have entered into are described in the Contracts section of this report.

Acquisition

To date we have not acquired any products; however, if we were to acquire a product we would own the product outright and would most likely have total commercial responsibility, inclusive of manufacturing, sales, marketing, distribution, intellectual property defense and clinical and regulatory affairs.

Medical Devices and Diagnostics

Our MD&D group provides an array of services to the MD&D industry. We have historically provided many of these sales and marketing activities to the pharmaceutical industry. We believe that our current infrastructure, supplemented by our addition of several individuals with extensive MD&D experience, can be leveraged to take advantage of opportunities in this market.

In September 2001, we acquired InServe Support Solutions (InServe). InServe is a leading nationwide supplier of supplemental field-staffing programs for the MD&D industry. InServe employs nurses, medical technologists, and other clinicians who train healthcare practitioners and provide hands-on clinical education and after sales support to maximize product utilization and customer satisfaction. InServe's clients include many of the leading MD&D companies, including Becton Dickinson, Boston Scientific and Johnson & Johnson.

The InServe acquisition helped establish our contract sales business within the MD&D market. We took our knowledge from years of providing sales forces to the pharmaceutical industry and applied it to the MD&D business. As a result, we now have contract sales as one of the services that we market to the MD&D industry, to assist a company in improving its product sales.

A major focus of the MD&D group is product licensing and acquisition. We believe that this market is well

suited for strategic alliances and partnerships with companies looking to maximize the commercial value of their products. This strategy led us to our first commercial MD&D partnership. In October 2002, we partnered with Xylos Corporation (Xylos) for the exclusive U.S. commercialization rights to the Xylos XCell(TM) Cellulose Wound Dressing (XCell) wound care products, by entering into an agreement pursuant to which we are the exclusive commercialization partner for the sales, marketing and distribution of the product line in the U.S.

History

We commenced operations as a contract sales organization in 1987. From 1990 to 1995 contract sales became accepted in the pharmaceutical industry as a tactical solution for a lower cost, high quality sales team. The representatives were principally flex-time. We were paid per call and there was very little risk sharing.

The expansion of pharmaceutical field forces in general and the acceptance of contract sales by the industry were two main drivers that fueled our high growth from 1996 to 2000. Our representatives were principally full-time employees and we provided a compensation package that was competitive with those of the major pharmaceutical companies in order to attract higher quality personnel and become a better provider of contract sales services.

We completed our initial public offering in May 1998. In May of 1999, we acquired TVG, Inc. (TVG) which gave us one of the leading marketing research groups in the U.S. and a scientifically focused medical education capability. The addition of TVG provided us with incremental growth potential as a result of the additional capabilities available to support our service offerings.

In August 1999, we added a shared sales capability through the acquisition of ProtoCall, now PDI Shared Sales. This addition provided us with a lower cost product offering and increased business opportunities with existing and new clients. This offering also supplemented our dedicated sales force capacity.

In September 2001, we acquired InServe which provides clinical sales support to the MD&D industry. InServe employs nurses, medical technologists, and other clinicians who train healthcare practitioners with respect to medical equipment. InServe informs and supports the end users of medical equipment, with the objective of increasing satisfaction and utilization of the equipment. The client benefits by reducing the time its sales representatives spend for training and service, increasing the time available for sales activity.

In June 2000, we established LifeCycle Ventures (LCV) to support our agreements that require marketing and other commercial capabilities. Our initial strategy, in response to the market dynamics at the time, was to identify under-promoted brands within pharmaceutical companies' product portfolios and put a focused promotional effort behind them, increasing product performance. This was the case in October 2000, when we entered into a sales, marketing and distribution agreement with GlaxoSmithKline (GSK) in support of Ceftin. The Ceftin agreement enabled LCV to add capabilities that we did not then have, such as distribution, medical affairs, regulatory and managed care and trade relations.

The Ceftin agreement was terminated earlier than anticipated because of the unexpected introduction of a generic equivalent into the market in February 2002. Notwithstanding this event, the Ceftin agreement successfully facilitated our growth from a pure service provider to a commercial partner with expanded capabilities and service offerings for the pharmaceutical industry.

During 2001 and 2002, we continued to identify other late stage pharmaceutical products that could benefit from focused sales and marketing efforts. Many companies had products within their portfolios that were underpromoted and that could benefit from focused sales and marketing efforts. As the dynamics within the industry changed, affected by mergers and acquisitions, a slowdown in the approval of new products, and increased generic availability of once large brands, the willingness of pharmaceutical companies to relinquish commercial control of products decreased.

During this period, we entered into several financially beneficial copromotion agreements, including with Novartis Pharmaceuticals Corporation (Novartis). In contrast, our copromotion agreement with Eli Lilly and Company (Eli Lilly) resulted in significant operating losses. However, copromotion agreements remain a viable business

arrangement with pharmaceutical companies, but we have a narrower range of parameters that must be met in order for us to consider an opportunity favorably.

Our business development efforts are now focused on:

- products in late stage development, prior to final Food and Drug Administration (FDA) approval; and
- opportunities within the sales and marketing services group.

We believe that there are opportunities for us:

- to partner with companies that lack the necessary infrastructure to commercialize their brands; and
- to take over the promotion of products that are not getting the level of sales and marketing support needed to maximize the return to the brand owner.

Corporate Strategy

Our strategy is to source pharmaceutical and MD&D products into our company that we can sell, market and commercialize. We do this by entering into agreements with companies that own the right to the product(s) and require our expertise in generating product sales. We are compensated either through a fee for service or by sharing in the product sales we generate.

Contracts

Given the customized nature of our business, we utilize a variety of contract structures.

Contracts within the sales and marketing services group are almost exclusively fee for service. These contracts, for dedicated teams, shared teams, and marketing research and medical education, contain specific activities that we provide in return for a fee. They may contain operational benchmarks, such as a minimum amount of activity or delivery within a specified amount of time. These contracts can include incentive payments should our activities generate results that meet or exceed predetermined performance targets.

The majority of our revenue in the sales and marketing services segment is generated by contracts for dedicated sales teams. These contracts are generally for terms of one to three years and may be renewed or extended. The majority of these contracts, however, are terminable by the client for any reason upon 30 to 90 days' notice. These contracts typically, but not always, provide for termination payments by the client upon termination without cause. While such termination may result in the imposition of penalties on the client, these penalties may not act as an adequate deterrent to the termination of any contract. In addition, these penalties may not offset the revenue we could have earned under the contract or the costs we may incur as a result of its termination. The loss or termination of a large contract or the loss of multiple contracts could adversely affect our future revenue and profitability. Contracts may also be terminated for cause if we fail to meet stated performance benchmarks.

Our market research and consulting and education and communications contracts generally are for projects lasting from three to six months. The contracts are terminable by the client and provide for termination payments in the event they are terminated without cause. Termination payments include payment for all work completed to date, plus the cost of any nonrefundable commitments made on behalf of the client. Due to the typical size of these contracts, it is unlikely the loss or termination of any individual contract would materially adversely affect our financial condition or results of operations.

The contracts within the pharmaceutical products group are generally performance based. Certain licensing and acquisition contracts may require sales, marketing and distribution of product. Typically we provide and finance a portion, if not all, of the commercial activities in support of a brand in return for a percentage of product sales. An important performance parameter is normally the level of sales or prescriptions attained by the product during the period of our marketing or promotional responsibility, and in some cases, for periods after our promotional activities have ended.

In the fourth quarter of 2000, we entered into a performance based contract with GSK. Our agreement with GSK was in support of Ceftin and was an exclusive sales, marketing and distribution contract. The agreement had a five-year term, but was cancelable by either party without cause on 120 days' notice. The agreement was terminated

by mutual consent, effective February 28, 2002, due to the unexpected entry of a competitive generic product.

In May 2001, we entered into a copromotion agreement with Novartis where we secured the U.S. sales, marketing and promotion rights for Lotensin(R) (benazepril) and Lotensin HCT(R) (collectively Lotensin), that runs through December 31, 2003. Under this agreement, we provide promotion, sales, marketing and brand management for Lotensin, an ACE inhibitor. In exchange, we are entitled to receive a revenue split based on certain total prescription objectives above specified contractual baselines. Also under this agreement with Novartis, we promote Lotrel(R), a combination of the ACE inhibitor benazepril and the calcium channel blocker amlodipine. In May 2002, Diovan(R) (valsartan) and Diovan HCT (collectively Diovan) were added to the agreement. Diovan, an angiotensin II receptor blocker (ARB), is one of Novartis' most successful products. Under the Lotrel and Diovan portion of the agreement, we are compensated on a fee for service basis with the potential for incentive payments based upon achieving certain prescription and promotional sales objectives. The agreement to sell and market Lotensin, and to promote Lotrel and Diovan, runs through December 31, 2003. Novartis has retained certain regulatory responsibilities for Lotensin, Lotrel and Diovan as well as ownership of all intellectual property. Additionally, Novartis will continue to manufacture and distribute the products, set pricing and provide all managed care and trade activities. In 2003, the Lotrel and Diovan contract will be classified differently since the nature of the contract has changed from a pure performance based contract where we were not assured of recouping our expenses, to a more traditional fee for service contract where we have greater certainty of recouping our expenses with the additional potential for incentives at year end based on achieving certain performance criteria.

In October 2001, we entered into an agreement with Eli Lilly to copromote Evista(R) in the U.S. Under this agreement, we were entitled to be compensated based upon net sales achieved above a predetermined level. In the event these predetermined net sales levels were not achieved, we would not receive any revenue to offset expenses incurred. During 2002, it became apparent that the net sales levels likely to be achieved would not be sufficient to recoup our expenses. In November 2002, we agreed with Eli Lilly to terminate the Evista copromotion agreement effective December 31, 2002.

In October 2002, we entered into an agreement with Xylos for the exclusive U.S. commercialization rights to the XCell wound care products, by entering into an agreement pursuant to which we are the exclusive commercialization partner for the sales, marketing and distribution of the product line in the U.S.

On December 31, 2002, we entered into an exclusive licensing agreement with Cellegy Pharmaceuticals, Inc. (Cellegy) for the North American rights to its testosterone gel product. Cellegy submitted a New Drug Application (NDA) for the hypogonadism indication in June 2002, based on positive results achieved in a Phase III clinical trial. The U.S. Food and Drug Administration (FDA) has accepted the application for review, and FDA approval for the commercialization of the product is pending. The 10-month Prescription Drug User Fee Act (PDUFA) date for the product is April 5, 2003, the first potential approval date for the product, though there is no certainty that it will be approved at that time. Under the terms of the agreement, which is in effect for the commercial life of the product, upon execution of the agreement we paid Cellegy a $15.0 million initial licensing fee. As the nonrefundable payment was made prior to FDA approval and there is no alternative future use, the $15.0 million was expensed when incurred. The amount has been recorded in other selling, general, and administrative expenses in the consolidated statement of operations. We will be required to pay Cellegy an additional $10.0 million after the product has all FDA approvals required to promote, sell and distribute the product in the U.S. This payment will be recorded as an intangible asset and amortized over the estimated commercial life of the product. Royalty payments to Cellegy over the term of the commercial life of the product will range from 20% to 30% of net sales. The agreement is in effect for the commercial life of the product. As discussed in the Legal Proceedings section of this report, in January 2003, a lawsuit was filed against us seeking to enjoin our performance under this agreement.

Our contracts typically contain cross-indemnification provisions between our client and ourselves. The client will usually indemnify us against product

liability and related claims arising from the sales of the product and we indemnify the clients with respect to the errors and omissions of our sales representatives and marketing personnel. To date, no client or partner has asserted any claim for indemnification against us under any contract.

Significant Customers

Our significant customers are discussed in footnote 13 to the consolidated financial statements included

elsewhere in this report.

Marketing

Our marketing efforts target the biopharmaceutical and MD&D industries. Companies with large product portfolios have been the most likely customers for the services and solutions we provide, but we have also partnered with smaller, emerging companies. 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 our full range of services, and projecting us as the high quality sales and marketing organization that we are. Our tactical plan includes advertising in trade publications, direct mail, presence at industry seminars and a direct selling effort. We have a dedicated team of business development specialists who work across the organization to identify needs within the biopharmaceutical and MD&D industries which we can address.

A multi-disciplinary team of senior managers reviews possible business opportunities as identified by the business development team and determines strategies and negotiation positions to contract for the most attractive business opportunities.

Competition

There are relatively few barriers to entry into the businesses in which we operate and, as the industry continues to evolve, new competitors are likely to emerge. Many of our current and potential competitors are larger than we are and have greater financial, personnel and other resources than we do. We compete on the basis of such factors as reputation, service quality, management experience, performance record, customer satisfaction, ability to respond to specific client needs, integration skills and price. We believe we compete effectively with respect to each of these factors. Increased competition may lead to price and other forms of competition that may have a material adverse effect on our business and results of operations.

For our service offerings the competition includes in-house sales and marketing departments of biopharmaceutical and MD&D companies, emerging companies within these segments and other contract sales organizations (CSOs). Companies that compete with us from the perspective of having diversified service offerings include Innovex (a subsidiary of Quintiles Transnational), Ventiv Health and Nelson Professional Sales.

The competition for our PPG and MD&D product offerings is primarily other pharmaceutical companies and other companies that acquire branded products and product lines from other pharmaceutical and MD&D companies. Competing to copromote, license and/or acquire brands brings all the risks generally associated with identifying, assessing and contracting effectively for products in addition to the marketing and distribution risks of the products we obtain.

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, the provision, licensing, labeling, marketing, promotion, price, sale and reimbursement of healthcare services and products, including pharmaceutical and medical diagnostic and device 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. These restrictions or prohibitions on sales or withdrawal of approval of products marketed by us could materially adversely affect our business, financial condition and results of operations.

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 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 these 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 pharmaceuticals 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, which 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.

There are also numerous federal and state laws pertaining to healthcare fraud and abuse. In particular, certain federal and state laws prohibit manufacturers, suppliers and providers from offering or giving or receiving kickbacks or other remuneration in connection with ordering or recommending 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 law 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.

The FDA regulates the drug development process in the U.S. This impacts products we may develop, license or acquire, including the Cellegy licensed product. Prior to commencing human clinical trials in the U.S., a company must file with the FDA an Investigational New Drug (IND) application containing details for at least one study protocol and outlines of other planned studies. The company must also provide available manufacturing data, preclinical data, information about any use of the drug in humans for other purposes, and a detailed plan for the proposed clinical trials, also referred to as the study protocols. The protocols must correctly anticipate the nature of the data to be generated and results that the FDA will require before approving the drug. If

the FDA does not comment within 30 days after an IND filing, human clinical trials may begin.

The clinical stage is the most time-consuming and expensive part of the drug development process. The drug undergoes a series of tests in humans, including healthy volunteers as well as patients with the targeted disease or condition. Human trials usually start on a small scale to assess safety and then expand to larger trials to test efficacy. These trials are usually grouped into the following three phases, with multiple trials generally conducted within each phase:

- Phase 1 trials involve testing the drug on a limited number of healthy individuals to determine the drug's basic safety data, including tolerance, absorption, metabolism and excretion.

- Phase 2 trials involve testing a small number of volunteer patients, who suffer from the targeted disease or condition, to determine the drug's effectiveness and how different doses work.

- Phase 3 trials involve testing large numbers of patients, to verify efficacy on a large scale, as well as long-term safety.

After all three clinical phases have been successfully completed, a company submits to the FDA an NDA requesting that the drug be approved for marketing. The NDA is a comprehensive filing that includes, among other things, the results of all preclinical and clinical studies. The FDA's review can last from a few months to several years, depending on the drug and the disease state that is being treated. Drugs that successfully complete this review may be marketed in the U.S. As a condition to its approval of a drug, the FDA may require additional clinical trials following receipt of approval, in order to monitor long-term risks and benefits, to study different dosage levels or to evaluate different safety and efficacy parameters in target populations.

We cannot determine what effect changes in regulations or statutes or legal interpretations, when and if established or enacted, may have on our business in the future. Changes could require, among other things, changes to manufacturing methods, expanded or different labeling, the recall, replacement or discontinuance of certain products, additional record keeping or expanded documentation of the properties of certain products and scientific substantiation. Further, we may experience delays in the regulatory approval of products we license or acquire. Such changes, or new legislation, or delays could have a material adverse effect on our business, financial condition and results of operations. Our failure, or the failure of our clients to comply with, or any change in, the applicable regulatory requirements or professional organization or industry guidelines or regulatory delays could, among other things, limit or prohibit us or our clients from conducting business activities as presently conducted or proposed to be conducted, result in adverse publicity, increase the costs of regulatory compliance or result in monetary fines or other penalties. Any of these occurrences could have a material adverse affect on us.

RISK FACTORS

In addition to the other information provided in our reports, you should carefully consider the following factors in evaluating our business, operations and financial condition. Additional risks and uncertainties not presently known to us, that we currently deem immaterial or that are similar to those faced by other companies in our industry or business in general, such as competitive conditions, may also impair our business operations. If any of the following risks occur, our business, financial condition, or results of operations could be materially adversely affected.

For 2002 we had a net loss of $30.8 million. In addition, year-to-year, our revenue is down 59.2%.

For the year ended December 31, 2002, we reported a net loss of approximately $30.8 million. This is the first time since we became a reporting company that we had a full year net loss. The two principal contributors were the $35.1 million operating loss for the Evista contract and the $15.0 million initial licensing fee associated with the Cellegy agreement. In addition, our total net revenue for 2002 was $284.0 million compared to $696.6 million in 2001

and $416.9 million in 2000. The decrease in total net revenue is primarily attributable to the fact that we had virtually no product revenue in 2002 due to the termination of the Ceftin agreement effective February 28, 2002. There is no assurance that we will operate profitably in future periods.

We continue to develop the pharmaceutical products group segment of our business, which includes copromotion, exclusive distribution arrangements, as well as licensing and brand ownership of products. We cannot assure you that we can successfully develop this business.

Notwithstanding the fact that we had virtually no product revenue from the pharmaceutical products group segment of our business in 2002, we believe that a key to our future growth is our ability to acquire copromotion and distribution rights to pharmaceutical products and medical and diagnostic devices as well as our ability to license or acquire these products. These types of arrangements can significantly increase our operating expenditures. Typically, these agreements require significant "upfront" payments, minimum purchase requirements, minimum royalty payments, payments to third parties for production, inventory maintenance and control, distribution services and accounts receivable administration, as well as sales and marketing expenditures. In addition, particularly where we license or acquire products before they are approved for commercial use, we may be required to incur significant expense to gain the required regulatory approvals. As a result, our working capital balance and cash flow position could be materially and adversely affected until the products and devices in question become commercially viable.

The risks that we face in developing the pharmaceutical product segment of our business may increase in proportion with:

- the number and types of products covered by these types of agreements;
- the applicable stage of the drug regulatory process of the products at the time we enter into these agreements; and
- our control over the manufacturing, distribution and marketing processes.

Recently, we acquired from Cellegy the exclusive right to market and sell a transdermal testosterone gel for the treatment of male hypogonadism in the U.S., Puerto Rico, Mexico and Canada. While we have entered into copromotion and exclusive distribution arrangements in the past, the Cellegy agreement is our first licensing arrangement. We paid $15.0 million (nonrefundable) to acquire the license and another $10.0 million payment is due after the product has all FDA approvals required to promote, sell and distribute the product in the U.S. These two payments represent approximately 25% of our current working capital. Once the drug is approved, in addition to paying Cellegy a royalty based on net sales, all of the costs associated with manufacturing the drug, distributing it, as well as sales and marketing expenditures are our obligation. If additional testing is required after the drug is approved for sale in the U.S., the costs associated with those tests are our obligation as well. Furthermore, if we want to sell the drug in Mexico and Canada, we must fund the regulatory process in those countries. In light of the significant costs associated with the Cellegy license, we cannot assure you that we will recoup our investment or that we will realize a profit from this product.

We rely on third parties to manufacture all of our products and supply raw materials. Our dependence on these third parties may result in unforeseen delays or other problems beyond our control, which could adversely affect our financial condition and our reputation.

We do not manufacture any products and expect to continue to depend on third parties to provide us with sufficient quantities of products to meet demand. As a result, we cannot assure you that we will always have a sufficient supply of products on hand to satisfy demand or that the products we do have will meet our specifications. This risk is more acute in those situations where we have no control over the manufacturers. For example, our agreement with Cellegy obligates us to purchase all quantities of the product from PanGeo Pharma Inc. (PanGeo), a third-party manufacturer with which we have no contractual relationship and to which Cellegy has granted exclusive manufacturing rights. If there are any problems with this contract manufacturer, the supply of product could be temporarily halted until either PanGeo is able to

get their facilities back on-line or we are able to source another supplier for the product. This manufacturing shutdown could have a material impact on the future demand for the product and thus could have a material adverse effect on our results of operations. Even if third-party manufacturers comply with the terms of their supply arrangements, we cannot be certain that supply interruptions will not occur or that our inventory will always be adequate. Numerous factors could cause interruptions in the supply of our finished products, including shortages in raw materials, strikes and transportation difficulties. Any disruption in the supply of raw materials or an increase in the cost of raw materials to our supplier could have a significant effect on its ability to supply us with products.

In addition, manufacturers of products requiring FDA approval are required to comply with FDA mandated standards, referred to as good manufacturing practices, relating not only to the manufacturing process but to record-keeping and quality control activities as well. Furthermore, they must pass a pre-approval inspection of manufacturing facilities by the FDA and foreign authorities before obtaining marketing approval, and are subject to periodic inspection by the FDA and corresponding foreign regulatory authorities under reciprocal agreements with the FDA. These inspections may result in compliance issues that could prevent or delay marketing approval or require significant expenditures on corrective measures.

If for any reason we are unable to obtain or retain our relationships with third-party manufacturers on commercially acceptable terms, or if we encounter delays or difficulties with contract manufacturers in producing or packaging our products, the distribution, marketing and subsequent sales of these products would be adversely affected, and we may have to seek alternative sources of supply. We cannot assure you that we will be able to maintain our existing manufacturing relationships or enter into new ones on commercially acceptable terms, if at all.

Our license agreements may require us to make minimum payments to the licensor, regardless of the revenue derived under the license, which could further strain our working capital and cash flow position. In addition, these agreements may be nonexclusive or may condition exclusivity on minimum sales levels.

Under our license agreement with Cellegy, we are required to make certain minimum royalty payments to Cellegy once the product is approved. If the Cellegy product fails to gain market acceptance, we will still be required to make these minimum royalty payments. This will likely have a negative impact on our financial condition and results of operations. In addition, the Cellegy license agreement requires us to satisfy certain minimum net sales requirements. If we fail to satisfy these minimum net sales requirements, under certain circumstances Cellegy may, at its option, convert our exclusive license to a nonexclusive license. This could mean that we would face increased competition from third parties with respect to the marketing and sale of the product.

The regulatory approval process is expensive, time consuming and uncertain and may prevent us from obtaining required approvals for the commercialization of drugs and products that we license or acquire.

In those situations where we license or acquire ownership of drugs or other medical or diagnostic equipment, the product in question may not yet be approved for sale to the public, in which case we may have the obligation to obtain the required regulatory approvals. The research, testing, manufacturing and marketing of drugs and other medical and diagnostic devices is heavily regulated in the U.S. and other countries. The regulatory clearance process typically takes many years and is extremely expensive. Despite the time and expense expended, regulatory clearance is never guaranteed. The FDA can delay, limit or deny approval of a drug for many reasons, including:

- safety or efficacy;
- inconsistent or inconclusive data or test results;
- failure to demonstrate compliance with the FDA's good manufacturing practices; or
- changes in the approval process or new regulations.

The FDA continues to regulate the sale and marketing of drugs and medical and diagnostic devices even after they have been approved for sale to the public.

Complying with these regulations may be costly and our failure to comply could limit our ability to continue marketing and distributing these products.

Even after drugs have been approved for sale, the FDA continues to regulate their sale. These post-approval regulatory requirements may require further testing and/or clinical studies, and may limit our ability to market and distribute the product or may limit the use of the product. Under our agreement with Cellegy, we are responsible for all post-approval regulatory compliance. If we fail to comply with the regulatory requirements of the FDA, we may be subject to one or more of the following administrative or judicially imposed sanctions:

- warning letters;
- civil penalties;
- criminal penalties;
- injunctions;
- product seizure or detention;
- product recalls;
- total or partial suspension of production; and
- FDA refusal to approve pending NDAs, or supplements to approved NDAs.

FDA approval does not guarantee commercial success. If we fail to successfully commercialize our products, our financial condition and results of operations could be materially and adversely affected.

Even if a product is approved for sale to the general public, its commercial success will depend on our marketing efforts and acceptance by the general public. The commercial success of any drug or medical or diagnostic device depends on a number of factors, including:

- demonstration of clinical efficacy and safety;
- cost;
- reimbursement policies of large third-party payors;
- competitive products;
- convenience and ease of administration;
- potential advantages over alternative treatment methods; and
- marketing and distribution support.

We cannot assure you that any of our products will achieve commercial success, regardless of how effective they may be.

Failure to obtain adequate reimbursement could limit our ability to market products.

Our ability to commercialize products, including licensed or acquired products, will depend in part on the reimbursements, if any, obtained from third-party payors such as government health administration authorities, private health insurers, managed care programs and other organizations. Third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for pharmaceutical products. Cost control initiatives could decrease the price that we would receive for products and affect our ability to commercialize any product. Third-party payors also tend to discourage use of branded products when generic substitutes are available. As a result, reimbursement may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investment in product acquisition and development. If adequate reimbursement levels for either newly approved or branded products are not provided, our business, financial condition and results of operations could be materially and adversely affected.

We are the defendant in a lawsuit which seeks damages and to enjoin our performance of the Cellegy license agreement.

On January 6, 2003, we were named as a defendant in a lawsuit filed by Auxilium Pharmaceuticals, Inc. (Auxilium), in the Pennsylvania Court of Common Pleas, Montgomery County. Auxilium is seeking monetary damages and injunctive relief, including preliminary injunctive relief, based on several claims related to our alleged breaches of a contract sales force agreement entered into with Auxilium on November 20, 2002, and claims that we have and currently are misappropriating trade secrets in connection with our license agreement with

Cellegy. A hearing on Auxilium's preliminary injunction motion was conducted on February 11th through 13th, 2003, but the court did not reach a decision. Final arguments in the hearing are scheduled for the week of March 17, 2003. We intend to continue contesting this case vigorously. An unfavorable ruling in this proceeding could have a material adverse impact on our business and results of operations.

We will likely require additional funds in order to implement our evolving business model.

We will likely require additional funds in order to:

- license or acquire additional pharmaceutical or medical device products or technologies;
- pursue regulatory approvals;
- develop incremental marketing and sales capabilities; and
- pursue other business opportunities or meet future operating requirements.

We may seek additional funding through public or private equity or debt financing or other arrangements with collaborative partners. If we raise additional funds by issuing equity securities, further dilution to existing

stockholders may result. In addition, 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 sure, 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 growth strategies.

Our contract sales business depends on expenditures by companies in the life sciences industries.

Our service revenues depend on promotional, marketing and sales expenditures by companies in the life sciences industries, including the pharmaceutical, MD&D 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. Furthermore, the trend in the life sciences industries toward consolidation may result in a reduction in overall sales and marketing expenditures and, potentially, the use of contract sales and marketing services providers.

Changes in outsourcing trends in the pharmaceutical and biotechnology industries could adversely affect our operating results and growth rate.

Our business and growth depend in large part on demand from the pharmaceutical and life sciences industries for outsourced marketing and sales services. The practice of many companies in these industries has been to hire outside organizations like us to conduct large sales and marketing projects. This practice had grown substantially until very recently, and we benefited from this trend. 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, number of sales representatives employed internally in relation to demand for or the need to promote new and existing products, and competition from other suppliers. Recently there has been a reduced level of outsourcing activity. We believe this reduction is attributable to the factors discussed above as well as recent consolidation in the pharmaceutical and life sciences industries. If these industries reduce their tendency to outsource those projects or these trends continue, our operations, financial condition and growth rate could be materially adversely affected.

Product liability claims could harm our business.

We could face substantial product liability claims in the event users of any of the pharmaceutical and medical device products we market now or in the

future are 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, we have been named in numerous lawsuits as a result of our detailing of Baycol(R) on behalf of Bayer Pharmaceutical. Product liability claims, regardless of their merits, could be costly and divert management's attention, or adversely affect our reputation and the demand for our products. Although we currently have product liability insurance in the aggregate amount of $10.0 million, we cannot assure you 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.

We may be unable to secure or enforce adequate intellectual property rights to protect the products or technologies we acquire, license or develop.

Our ability to successfully commercialize new branded products or technologies depends on our ability to secure and enforce intellectual property rights, generally patents, and we may be unable to do so. To obtain patent protection, we must be able to successfully persuade the U.S. Patent and Trademark Office and its foreign counterparts to issue patents on a timely basis and possibly in the face of third-party challenges. Even if we are granted a patent, our rights may later be challenged or circumvented by third parties. Likewise, a third-party may challenge our trademarks or, alternatively, use a confusingly similar trademark. The issuance of a patent is not conclusive as to its validity or enforceability and the patent life is limited. In addition, from time to time, we might receive notices from third parties regarding patent claims against us. These type claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention and resources, and cause us to incur significant expenses. As a result of litigation over intellectual property rights, we may be required to stop

selling a product, obtain a license from the owner to sell the product in question or use the relevant intellectual property, which we may not be able to obtain on favorable terms, if at all, or modify a product to avoid using the relevant intellectual property. In the event of a successful claim of infringement against us, our business, financial condition and results of operations could be materially and adversely affected.

If we do not meet performance goals set in our incentive-based and revenue sharing arrangements, our profits could suffer.

We have recently seen an increase in demand from clients for incentive-based and revenue sharing arrangements. Under incentive-based arrangements, we are typically paid a fixed fee and, in addition, have an opportunity to increase our earnings based on the market performance of the products being detailed in relation to targeted sales volumes, sales force performance metrics or a combination thereof. Under revenue sharing arrangements, our compensation is based on the market performance of the products being detailed, usually expressed as a percentage of product sales. These types of arrangements transfer some market risk from our clients 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, overall promotional efforts and other market related factors. As an example, in October 2001, we entered into an agreement with Eli Lilly to copromote Evista in the U.S. under which we were to receive payments once product net sales exceeded a pre-determined baseline. Our net sales of Evista were insufficient for us to achieve our revenue and profit goals and as a result we incurred an operating loss for 2002 of $35.1 million on this contract, $28.9 million from operating activities and $6.2 million in unused sales force capacity. This contract was terminated effective December 31, 2002.

Most of our service revenue is derived from a limited number of clients, the loss of any one of which could adversely affect our business.

Our revenue and profitability depend to a great extent on our relationships with a limited number of large pharmaceutical companies. In 2002, we had two major clients that accounted for approximately 32.3% and 31.8%, respectively, or a total of 64.1%, of our service revenue. We are likely to continue to experience a high degree of client concentration, particularly if there is further consolidation within the pharmaceutical industry. The loss or a

significant reduction of business from any of our major clients could have a material adverse effect on our business and results of operations. As an example, on February 4, 2002, we announced the termination of our fee for service contract arrangement with Bayer Pharmaceuticals. As a result of this contract being terminated four and a one-half months early, our 2002 revenues were reduced by approximately $20.0 million.

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 year and many may be terminated by the client at any time for any reason. For example, as discussed above, as a result of the early termination of our fee for service contract arrangement with Bayer Pharmaceuticals, our 2002 revenues were reduced by approximately $20.0 million. The termination of a contract by one of our major clients not only results in lost revenue, but may cause us to incur additional costs and expenses. All of our sales representatives are employees rather than independent contractors. Accordingly, when a contract is terminated, unless we can immediately transfer the related sales force to a new program, we either must 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.

We and two of our officers are defendants in a class action shareholder lawsuit which could divert our time and attention from more productive activities.

Beginning on January 24, 2002, several purported class action complaints were filed in the U.S. District Court for the District of New Jersey, against us and certain of our officers on behalf of persons who purchased our common stock during the period between May 22, 2001 and August 12, 2002. We believe that meritorious defenses exist to the allegations asserted in these lawsuits and we intend to vigorously defend these actions. Although we currently maintain director and officer liability insurance coverage, there is no assurance that we will continue to maintain such coverage or that any such coverage will be adequate to offset potential damages.

Our failure, or that of our clients, to comply with applicable healthcare regulations could limit, prohibit or otherwise adversely impact our business activities.

Various laws, regulations and guidelines established by government, industry and professional bodies affect, among other matters, the providing, licensing, labeling, marketing, promotion, sale and distribution of healthcare services and products, including pharmaceutical and MD&D products. In particular, the healthcare industry is governed 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. 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 federal and state fraud and abuse laws, we cannot be certain 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 and results of operations. Our failure, or the failure of our clients, to comply with these laws, regulations and guidelines, or any change in these laws, regulations and guidelines may, among other things, limit or prohibit our business activities or those of our clients, subject us or our clients to adverse publicity, increase the cost of regulatory compliance and insurance coverage or subject us or our clients to monetary fines or other penalties.

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 services include in-house sales and marketing departments of pharmaceutical companies, other CSOs and drug wholesalers. We also compete for the licensing and acquisition of pharmaceutical and MD&D products with other larger pharmaceutical and MD&D companies. 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. Many of our current and potential competitors are larger than we are and have substantially greater capital, personnel and other resources than we have. Increased competition may lead to price and other forms of competition that could have a material adverse effect on our market share, our ability to source new business opportunities and our results of operations.

Consolidation of the wholesale distribution network for pharmaceutical products could adversely impact the terms and conditions of our product sales.

The distribution network for pharmaceutical products has recently experienced significant consolidation among wholesalers and chain stores. As a result, a few large wholesale distributors control a significant share of the market and we have less ability to negotiate price, return policies and other terms and related provisions of the sale. As our distribution of products expands, some of these wholesalers and distributors may account for a significant portion of our product sales. Our inability to negotiate favorable terms and conditions for product sales to those wholesalers could have a material adverse effect on our financial condition and results of operations.

If we are unable to attract key employees and consultants, we may be unable to develop our emerging business model.

Successful execution of our business strategy depends, in large part, on our ability to attract and retain qualified management and marketing personnel with the skills and qualifications necessary to fully execute our programs and strategy. Competition for personnel among companies in the pharmaceutical industry is intense and we cannot assure you that we will be able to continue to attract or retain the personnel necessary to support the growth of our business.

Our business will suffer if we fail to attract and retain experienced sales representatives.

The success and growth of our business depends on our ability to attract and retain qualified and experienced pharmaceutical sales representatives. There is intense competition for experienced pharmaceutical sales representatives from CSOs and pharmaceutical companies. On occasion our clients have hired the sales representatives that we trained to detail their products. We cannot be certain that we can continue to attract and

retain qualified personnel. If we cannot attract and retain qualified sales personnel, we will not be able to expand our business and our ability to perform under our existing contracts will be impaired.

Our business will suffer if we lose certain key management personnel.

The success of our business also depends on our ability to attract and retain qualified senior management, and financial and administrative personnel who are in high demand and who often have multiple employment options. Currently, we depend on a number of our senior executives, including Charles T. Saldarini, our chief executive officer, Steven K. Budd, our president and chief operating officer, and Bernard C. Boyle, our chief financial officer. The loss of the services of any one or more of these executives could have a material adverse effect on our business, financial condition and results of operations. Except for a $5 million key-man life insurance policy on the life of Mr. Saldarini and a $3 million policy on the life of Mr. Budd, we do not maintain and do not contemplate obtaining insurance policies on any of our employees.

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 35% of our outstanding common stock. As a result, Mr. Dugan will be 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.

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 three classes of directors, which are intended to enhance the likelihood of continuity and stability in the composition of our board of directors. These provisions may make if 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, even though the transaction might offer our stockholders an opportunity to sell their shares at a price above the current market price.

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 programs;
- regulatory developments;
- uncertainty related to compensation based on achieving performance benchmarks;
- the mix of services provided;
- the mix of programs -- i.e., contract sales, copromotion, exclusive marketing, licenses;
- the timing and amount of expenses for implementing new programs and services and acquiring license rights for products;
- the accuracy of estimates of resources required for ongoing programs;
- the timing and integration of acquisitions;
- changes in regulations related to pharmaceutical companies; and
- general economic conditions.

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. 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 an 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 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. In 2002 our stock traded at a low of $2.85 and a high of $23.44.

The market for our common stock is volatile. The trading price of our common stock has been and will continue to be subject to:

- volatility in the trading markets generally;
- significant fluctuations in our quarterly operating results;
- announcements regarding our business or the business of our competitors;
- industry development;
- regulatory developments;
- changes in product mix;
- changes in revenue and revenue growth rates for us and for our industry as a whole; 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.

Employees

As of December 31, 2002, we had 3,482 employees. Included in that amount are 301 part-time field representatives employed by InServe, the number of which vary from time to time based on project demand. We are not party to a collective bargaining agreement with a labor union and our relations with our employees are good.

Available Information

Our website address is www.pdi-inc.com. We are not including the information contained on our website as part or, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through our website our annual report 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.

ITEM 2. PROPERTIES

Facilities

Our corporate headquarters are located in Upper Saddle River, New Jersey, in a 48,600 square foot facility. The lease for all but approximately 10,000 square feet of this space expires in the fourth quarter of 2004 with an option to extend for an additional five years. The lease on the remaining space expires in the second quarter of 2004.

TVG operates out of a 48,000 square foot facility in Fort Washington, Pennsylvania, under a lease that expires in the second quarter of 2005.

PPG operates out of a 14,000 square foot facility in Lawrenceville, New Jersey, under a lease that expires in July 2003.

InServe operates out of a 9,100 square foot facility in Novato, California, under a lease which expires in the second quarter of 2005.

We maintain a call center which supports our sales and marketing services group in approximately 7,300 square feet of space in Bridgewater, New Jersey, under a lease that expires in June 2006.

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

ITEM 3. LEGAL PROCEEDINGS

Securities Litigation

In January and February 2002, we, our chief executive officer, and our chief financial officer were served with three complaints that were filed in the United States District Court for the District of New Jersey alleging violations of the Securities Exchange Act of 1934 (the "1934 Act"). These complaints were brought as purported shareholder class actions under Sections 10(b) and 20(a) of the 1934 Act and Rule 10b-5 established thereunder. On May 23, 2002, the Court consolidated all three lawsuits into a single action entitled In re PDI Securities Litigation, Master File No. 02-CV-0211, and appointed lead plaintiffs ("Lead Plaintiffs") and Lead Plaintiffs' counsel. On or about December 13, 2002, Lead Plaintiffs filed a second consolidated and amended complaint ("Second Consolidated and Amended Complaint"), which superseded their earlier complaints.

The complaint names us, our chief executive officer, and our chief financial officer as defendants; purports to state claims against us on behalf of all persons who purchased our common stock between May 22, 2001 and August 12, 2002; and seeks money damages in unspecified amounts and litigation expenses including attorneys' and experts' fees. The essence of the allegations in the Second Consolidated and Amended Complaint is that we intentionally or recklessly made false or misleading public statements and omissions concerning our financial condition and prospects with respect to our marketing of Ceftin in connection with the October 2000 distribution agreement with GlaxoSmithKline, our marketing of Lotensin in connection with the May 2001 distribution agreement

with Novartis Pharmaceuticals Corp., as well as our marketing of Evista in connection with the October 2001 distribution agreement with Eli Lilly & Co.

In February 2003, we filed a motion to dismiss the Second Consolidated and Amended Complaint under the Private Securities Litigation Reform Act of 1995 and Rules 9(b) and 12(b)(6) of the Federal Rules of Civil Procedure. We believe that the allegations in this purported securities class action are without merit and intend to defend the action vigorously.

Bayer-Baycol Litigation

We have been named as a defendant in numerous lawsuits, including two class action matters, alleging claims arising from the use of the prescription compound Baycol that was manufactured by Bayer Pharmaceuticals (Bayer) and co-marketed by us on Bayer's behalf under a contract sales force agreement. We may be named in additional similar lawsuits. In August 2001, Bayer announced that it was voluntarily withdrawing Baycol from the U.S. market. To date, we have defended these actions vigorously and have asserted a contractual right of indemnification against Bayer for all costs and expenses we incur relating to these proceedings. 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, subject to certain limited exceptions. Further, Bayer has agreed to reimburse us for all reasonable costs and expenses incurred to date in defending these proceedings.

Auxilium Pharmaceuticals Litigation

On January 6, 2003, we were named as a defendant in a lawsuit filed by Auxilium Pharmaceuticals, Inc. (Auxilium), in the Pennsylvania Court of Common Pleas, Montgomery County. Auxilium is seeking monetary damages and injunctive relief, including preliminary injunctive relief, based on several claims related to our alleged breaches of a contract sales force agreement entered into by the parties on November 20, 2002, and claims that we have and currently are misappropriating its trade secrets in connection with our exclusive license agreement with Cellegy.

A hearing on Auxilium's preliminary injunction motion was conducted on February 11 through 13, 2003, but the court did not reach a decision. Final arguments in the hearing are scheduled for the week of March 17, 2003. We intend to continue contesting this case vigorously, and believe the likelihood of any order enjoining us from

marketing and selling under our Cellegy license for any significant time is unlikely, as is the likelihood of any material damage award.

PDI v. C.E. Unterberg, Towbin Partners

On February 28, 2003, we commenced an action against C.E. Unterberg, Towbin ("Unterberg") in the Supreme Court of the State of New York in New York County. The complaint alleges claims for defamation arising from an analyst report issued on February 12, 2003. Unterberg has not yet answered the complaint, or taken any responsive action.

We are currently a party to other legal proceedings incidental to our business. 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 consolidated financial statements, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the results of operations for the period in which the ruling occurs.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the Nasdaq National Market under the symbol "PDII". The following table sets forth, for each of the periods indicated, the range of high and low closing sales prices for the common stock as reported by the Nasdaq National Market.

	High	Low
2002		
First quarter	22.410	13.300
Second quarter	20.000	14.130
Third quarter	14.900	4.070
Fourth quarter	10.790	3.040
2001		
First quarter	106.375	50.688
Second quarter	96.530	57.500
Third quarter	88.050	22.780
Fourth quarter	33.330	16.580

We believe that, as of February 28, 2003, we had approximately 6,800 beneficial stockholders.

Dividend policy

We have not paid any dividends and do not intend to pay any dividends in the foreseeable future. Future earnings, if any, will be used to finance the future growth of our business. Future dividends, if any, will be determined by our board of directors.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below as of and for the years ended December 31, 2002, 2001, 2000, 1999 and 1998 are derived from our audited consolidated financial statements and the accompanying notes. Our consolidated financial statements for each of the periods prior to 2000 presented reflect our acquisition of TVG in May 1999, which was accounted for as a pooling of interests, on a pro forma basis as if TVG had been owned by the Company the entire period. Consolidated balance sheets at December 31, 2002 and 2001 and consolidated statements of operations, stockholders' equity and cash flows for the three years ended December 31, 2002, 2001 and 2000 and the accompanying notes are included elsewhere in this Annual Report on Form 10-K and have been audited by PricewaterhouseCoopers LLP, independent accountants. Our audited consolidated balance sheet at December 31, 1998 is not included in this report but has been audited by PricewaterhouseCoopers LLP in reliance on the audit report issued to TVG by Grant Thornton LLP for 1998. The selected financial data set forth below should be read together with, and are qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited Financial Statements and related notes appearing elsewhere in this report.

Statement of operations data:

<TABLE>
<CAPTION>

	Years Ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Revenue					
Service, net	$ 277,575	$281,269	$315,867	$174,902	$119,421
Product, net	6,438	415,314	101,008	--	--
Total revenue, net	284,013	696,583	416,875	174,902	119,421

Cost of goods and services					
Program expenses	254,140	232,171	235,355	130,121	87,840
Cost of goods sold	--	328,629	68,997	--	--
Total cost of goods and services	254,140	560,800	304,352	130,121	87,840
Gross profit	29,873	135,783	112,523	44,781	31,581
Operating expenses					
Compensation expense	32,670	39,263	32,820	19,611	15,779
Other selling, general and administrative expenses	44,163	83,815	38,827	9,448	6,546
Restructuring and other related expenses	3,215	--	--	--	--
Acquisition and related expenses	--	--	--	1,246	--
Total operating expenses	80,048	123,078	71,647	30,305	22,325
Operating (loss) income	(50,175)	12,705	40,876	14,476	9,256
Other income, net	1,967	2,275	4,864	3,471	2,273
(Loss) income before (benefit) provision for income taxes	(48,208)	14,980	45,740	17,947	11,529
(Benefit) provision for income taxes	(17,447)	8,626	18,712	7,539	1,691
Net (loss) income	$(30,761)	$ 6,354	$ 27,028	$ 10,408	$ 9,838
Basic net (loss) income per share(1)	$ (2.19)	$ 0.46	$ 2.00	$ 0.87	$ 0.92
Diluted net (loss) income per share(1)	$ (2.19)	$ 0.45	$ 1.96	$ 0.86	$ 0.91
Basic weighted average number of shares outstanding(1)	14,033	13,886	13,503	11,958	10,684
Diluted weighted average number of shares outstanding(1)	14,033	14,113	13,773	12,167	10,814

<CAPTION>

	Years Ended December 31,	
	1999	1998
	(In thousands, except per share data)	
<S>	<C>	<C>
Pro forma data (unaudited)		
Income before provision for income taxes	$ 17,947	$ 11,529
Pro forma provision for income taxes (2)	7,677	4,611
Pro forma net income (2)	$ 10,270	$ 6,918
Pro forma basic net income per share (2)	$ 0.86	$ 0.65
Pro forma diluted net income per share (2)	$ 0.84	$ 0.64
Basic weighted average number of shares outstanding (1)	11,958	10,684
Pro forma diluted weighted average number of shares outstanding (1)	12,167	10,814

</TABLE>

Balance sheet data:

<TABLE>
<CAPTION>

	As of December 31,				
	2002	2001	2000	1999	1998
	(in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Cash and cash equivalents	$ 66,827	$160,043	$109,000	$ 57,787	$ 56,989
Working capital	81,854	113,685	120,720	53,144	47,048
Total assets	190,939	302,671	270,225	102,960	77,390
Total long-term debt	--	--	--	--	--

Stockholders' equity	123,211	150,935	138,110	60,820	50,365

</TABLE>

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(1) See footnote 10 to our audited consolidated financial statements included elsewhere in this report for a description of the computation of basic and diluted weighted average number of shares outstanding.

(2) Prior to our initial public offering (IPO), we were an S corporation and had not been subject to Federal or New Jersey corporate income taxes, other than a New Jersey state corporate income tax of approximately 2%. In addition, TVG, a 1999 acquisition accounted for as a pooling of interest, was also taxed as an S corporation from January 1997 to May 1999. Pro forma provision for income taxes, pro forma net income and basic and diluted net income per share for 1999 and 1998 reflect a provision for income taxes as if we and TVG had been taxed at the statutory tax rates in effect for C corporations for all periods.

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

Cautionary Statement Identifying Important Factors That Could Cause Our Actual Results to Differ From Those Projected in Forward Looking Statements.

Pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, readers of this report are advised that this document contains both statements of historical facts and forward looking statements. Forward looking statements are subject to risks and uncertainties, which could cause our actual results to differ materially from those indicated by the forward looking statements. Examples of forward looking statements include, but are not limited to (i) projections of revenues, income or loss, earnings per share, capital expenditures, dividends, capital structure and other financial items, (ii) statements regarding our plans and objectives including product enhancements, or estimates or predictions of actions by customers, suppliers, competitors or regulatory authorities, (iii) statements of future economic performance, and (iv) statements of assumptions underlying other statements.

This report also identifies important factors that could cause our actual results to differ materially from those indicated by the forward looking statements. These risks and uncertainties include the factors discussed under the heading "Risk Factors" beginning at page 11 of this report.

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 notes thereto appearing elsewhere in this report.

Overview

We are a commercial sales and marketing company serving the biopharmaceutical and medical devices and diagnostics (MD&D) industries. We create and execute sales and marketing campaigns intended to improve the profitability of pharmaceutical or MD&D products. We do this by partnering with companies who own the intellectual property rights to these products and recognize our ability to commercialize these products and maximize their sales performance. We have a variety of agreement types that we enter into with our partner companies, from fee for service arrangements to equity investments in a product or company.

Description of Reporting Segments and Nature of Contracts

Our business is organized into three reporting segments:

* PDI sales and marketing services group (SMSG), comprised of:

  - o dedicated contract sales services (CSO);
  - o shared contract sales services (CSO);
  - o marketing research and consulting services (MR&C); and
  - o medical education and communication services (EdComm).

* PDI pharmaceutical products group (PPG), comprised of:

  - copromotion;
  - licensing; and
  - acquisitions

* PDI medical devices and diagnostics group (MD&D), comprised of:

  - contract sales services (CSO);
  - InServe;
  - copromotion;
  - licensing; and
  - acquisitions

An analysis of these reporting segments and their results of operations is contained in Note 24 to the consolidated financial statements found elsewhere in this report and in the consolidated results of operations discussion below.

PDI Sales and Marketing Services Group

Given the customized nature of our business, we utilize a variety of contract structures. Historically, most of our product detailing contracts have been fee for service, i.e., the client pays a fee for a specified package of services. These contracts typically include operational benchmarks, such as a minimum number of sales representatives or a minimum number of calls. Also, our contracts might have a lower base fee offset by built-in incentives we can earn based on our performance. In these situations, we have the opportunity to earn additional fees, as incentives, based on attaining performance benchmarks.

Our product detailing contracts generally are for terms of one to three years and may be renewed or extended. However, the majority of these contracts are terminable by the client for any reason on 30 to 90 days' notice. These contracts typically, but not always, provide for termination payments in the event they are terminated by the client without cause. While the cancellation of a contract by a client without cause may result in the imposition of penalties on the client, these penalties may not act as an adequate deterrent to the termination of any contract. In addition, we cannot assure you that these penalties will offset the revenue we could have earned under the contract or the costs we may incur as a result of its termination. The loss or termination of a large contract or the loss of multiple contracts could adversely affect our future revenue and profitability. As an example, in February 2002, Bayer notified us that they were exercising their right to terminate their contract with us without cause. Contracts may also be terminated for cause if we fail to meet stated performance benchmarks, though this has never happened.

Our MR&C and EdComm contracts generally are for projects lasting from three to six months. The contracts are terminable by the client and provide for termination payments in the event they are terminated without cause. Termination payments include payment for all work completed to date, plus the cost of any nonrefundable commitments made on behalf of the client. Due to the typical size of the projects, it is unlikely the loss or termination of any individual MR&C or EdComm contract would have a material adverse impact on our results of operations, cash flows and liquidity.

PDI Pharmaceutical Products Group

Our contracts within the PPG segment in general are more heavily performance based and have a higher risk potential and correspondingly an opportunity for higher profitability. We use a variety of structures for such contracts. These contracts typically involve significant startup expenses and a greater risk of operating losses. These contracts normally require significant participation from our PPG and MR&C and EdComm professionals whose skills include marketing, brand management, trade relations and marketing research.

Beginning in the fourth quarter of 2000, we entered into a number of significant performance based contracts. Our agreement with GlaxoSmithKline (GSK), which we entered into in October 2000 regarding Ceftin(R), was a marketing and distribution contract under which we had the exclusive right to market and distribute designated Ceftin products in the U.S. The agreement had a five-year term but was cancelable by either party without cause on 120 days'

notice. The agreement was terminated by mutual consent, effective February 28, 2002. Contracts such as the Ceftin agreement, which require us to purchase and distribute product, have a greater number of risk factors than a traditional fee for service contract. Any future agreement that involves in-licensing or product acquisition would have similar risk factors.

In May 2001, we entered into a copromotion agreement with Novartis Pharmaceuticals Corporation (Novartis) for the U.S. sales, marketing and promotion rights for Lotensin(R) and Lotensin HCT(R), which agreement runs through December 31, 2003. On May 20, 2002, we expanded this agreement with the addition of Diovan(R) and Diovan HCT(R). Under this agreement, we provide promotion, selling, marketing, and brand management for Lotensin. In exchange, we are entitled to receive a revenue split based on certain total prescription (TRx) objectives above specified contractual baselines. Also under this agreement with Novartis, we copromote Lotrel(R) and Diovan in the U.S. for which we are entitled to be compensated on a fixed fee basis with potential incentive payments based upon achieving certain TRx objectives. Novartis has retained regulatory responsibilities for Lotensin, Lotrel and

Diovan and ownership of all intellectual property. Additionally, Novartis will continue to manufacture and distribute the products. In the event our estimates of the demand for Lotensin are not accurate or more sales and marketing resources than anticipated are required, the Novartis transaction could have a material adverse impact on our results of operations, cash flows and liquidity. Although there is a small operating loss on this contract excluding corporate expense allocations for the year ending December 31, 2002, our efforts on this contract did result in operating income for the quarters ended September 30, 2002 and December 31, 2002 because the sales of Lotensin exceeded the specified baselines and the revenues earned exceeded the operating costs. We currently estimate that future revenues will continue to exceed costs associated with this agreement. However, there is no assurance that actual revenues will exceed costs, in which event the activities covered by this agreement could yield an operating loss and a contract loss reserve could be required. In 2003, the Lotrel and Diovan contract within the Novartis agreement will be classified in the SMSG segment since the nature of the contract has changed from a pure performance based contract where we were not assured of recouping our expenses, to a more traditional fee for service contract where we have greater certainty of recouping our expenses with the additional potential for incentives at year end based on achieving certain performance criteria.

In October 2001, we entered into an agreement with Eli Lilly and Company (Eli Lilly) to copromote Evista(R) in the U.S. Evista is approved in the U.S. for the prevention and treatment of osteoporosis in postmenopausal women. Under the terms of the agreement, we provided sales representatives to copromote Evista to physicians in the U.S. Our sales representatives augmented the Eli Lilly sales force promoting Evista. Under this agreement, we were entitled to be compensated based on net factory sales achieved above a predetermined level. The agreement did not provide for the reimbursement of expenses we incurred.

The Eli Lilly arrangement was a performance based contract. We were required to commit a certain level of spending for promotional and selling activities, including but not limited to sales representatives. The sales force assigned to Evista was at times used to promote other products in addition to Evista, including products covered by other PDI copromotion arrangements, which partially offset the costs of the sales force. Our compensation for Evista was determined based upon a percentage of net factory sales of Evista above contractual baselines. To the extent that these baselines were not exceeded, we received no revenue.

Based upon management's assessment of the future performance potential of the Evista brand, on November 11, 2002, we and Eli Lilly mutually agreed to terminate the contract as of December 31, 2002. We accrued a contract loss of $7.8 million as of September 30, 2002 representing the anticipated future loss expected to be incurred by us to fulfill our contractual obligations under the Evista contract. There was no remaining accrual as of December 31, 2002 as we had no further obligations due to the termination of the contract. We recorded $4.1 million in Evista program revenue for 2002 and the Evista program's operating loss, excluding corporate expense allocations on this contract for the year ended December 31, 2002, was $35.1 million, comprised of $28.9 million of direct Evista program operating losses and $6.2 million of unused Evista program

sales force capacity.

On December 31, 2002, we entered into an exclusive licensing agreement with Cellegy Pharmaceuticals, Inc. (Cellegy) for the North American rights to its testosterone gel product. Cellegy submitted a New Drug Application (NDA) for the hypogonadism indication in June 2002, based on positive results achieved in a Phase III clinical trial. The U.S. Food and Drug Administration (FDA) has accepted the application for review, and FDA approval for the commercialization of the product is pending. The 10-month Prescription Drug User Fee Act (PDUFA) date for the product is April 5, 2003, the first potential approval date for the product, though there is no certainty that it will be approved at that time. Under the terms of the agreement, which is in effect for the commercial life of the product, upon execution of the agreement we paid Cellegy a $15.0 million initial licensing fee. As the nonrefundable payment was made prior to FDA approval and there is no alternative future use, the $15.0 million was expensed when incurred. The amount has been recorded in other selling, general, and administrative expenses in the consolidated statement of operations. We will be required to pay Cellegy an additional $10.0 million after the product has all FDA approvals required to promote, sell and distribute the product in the U.S. This payment will be recorded as an intangible asset and amortized over the estimated commercial life of the product. Royalty payments to Cellegy over the term of the commercial life of the product will range from 20% to 30% of net sales. The agreement is in effect for the commercial life of the product. As discussed in the Legal Proceedings section of this report, in January 2003, a lawsuit was filed against us seeking to enjoin our performance under this agreement.

PDI Medical Devices and Diagnostics Group

On September 10, 2001, we acquired InServe Support Solutions (InServe) in a transaction treated as an asset acquisition for tax purposes. The acquisition was accounted for as a purchase in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) 141 and SFAS 142. The net assets of InServe on the date of acquisition were approximately $1.3 million. At closing, we paid the former shareholders of InServe $8.5 million, net of cash acquired. Additionally, we deposited $3.0 million in escrow related to additional amounts payable during 2002 if certain defined benchmarks were achieved. In April 2002, $1.2 million of the escrow was paid to InServe shareholders (the Seller) and $265,265 was returned to us due to nonachievement of a performance benchmark. In September 2002, substantially all of the remaining $1.5 million in escrow was paid to the Seller. In connection with these transactions, we recorded $7.8 million in goodwill, which is included in other long-term assets, and the remaining purchase price was allocated to identifiable tangible and intangible assets and liabilities acquired.

InServe is a leading nationwide supplier of supplemental field-staffing programs for the MD&D industry. InServe employs nurses, medical technologists and other clinicians who visit hospital and non-hospital accounts and provide hands-on clinical education and after-sales support to maximize product utilization and customer satisfaction. InServe's clients include many of the leading MD&D companies, including Becton Dickinson, Boston Scientific and Johnson & Johnson.

In addition to helping establish our first presence in the MD&D market, the InServe acquisition facilitated our entry into, and helped us establish, a contract sales business within the MD&D market. These service contracts have similar provisions to our sales and marketing services contracts.

A major focus of the MD&D group is product licensing and acquisition. We believe that this segment of the MD&D market is well suited for strategic alliances and partnerships with companies looking to maximize the commercial value of their products. This product licensing and acquisition focus led us to our first commercial partnership in the MD&D market. In October 2002, we entered into an agreement with Xylos Corporation (Xylos) for the exclusive U.S. commercialization rights to Xylos' XCell(TM) Cellulose Wound Dressing (XCell) wound care products, by entering into an agreement whereby we are the exclusive commercialization partner for the sales, marketing and distribution of the product line in the U.S. The minimum annual purchase requirement for the calendar year 2003 is $750,000. The minimum annual purchase requirement for each subsequent calendar year is based on the aggregate dollar volume of sales of

products during the 12-month period ending with September of the prior year, but in no case can be less than $750,000.

Critical Accounting Policies

We prepare our financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Our critical accounting policies are those that are most important to our financial condition and results and that require the most significant judgments on the part of our management in their application. We believe that the following represent our critical accounting policies. For a summary of all of our significant accounting policies, including the critical accounting policies discussed below, see footnote 1 to the consolidated financial statements. Our management and our independent accountants have discussed our critical accounting policies with the audit committee of the board of directors. Because of the uncertainty of factors surrounding the estimates or judgments in the preparation of the consolidated financial statements, particularly as it relates to a number of the judgmental items discussed in this section, actual results may vary from these estimates.

Revenues and costs of revenue

The paragraphs that follow describe the guidelines that we adhere to in accordance with GAAP when recognizing revenue and cost of goods and services in our financial statements. GAAP requires that service revenue and product revenue and their respective direct costs be shown separately on the income statement. However, our

reporting segments' revenue and direct costs may consist of both product and service; the segment financial results are discussed later in the Consolidated Results of Operations section beginning on page 30 and in Note 24 to the consolidated financial statements located elsewhere in this report.

Historically, we have derived a significant portion of our service revenue from a limited number of clients. 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 client concentration in future periods. Our significant clients, who each accounted for 10% or more of our service revenue, accounted for approximately 64.1%, 60.0% and 60.2%, of our service revenue for the years ended December 31, 2002, 2001 and 2000, respectively. Our product revenue for the year ended December 31, 2001, which was comprised entirely of sales of Ceftin, primarily came from three customers who accounted for approximately 80.2% of total net product revenue. Of the $6.4 million recorded as product revenue for the year ended December 31, 2002, approximately $716,000 was from the sale of Ceftin inventory. The balance of $5.7 million resulted from the net positive adjustments recorded in sales returns and allowances, discounts and rebates for 2002 that occurred as we continued to satisfy our liabilities relating to the previous reserves recorded as a result of Ceftin sales in prior periods. Since those reserves were initially set up as estimates using historical data and other information, there may be both positive and negative adjustments made as the liabilities are settled in future periods, and these adjustments will be reflected in product revenue in accordance with the classification of such accruals as initially recorded.

Service revenue and program expenses

Service revenue is earned primarily by performing product detailing programs and other marketing and promotional services under contracts. Revenue is recognized as the services are performed and the right to receive payment for the services is assured. Revenue is recognized net of any potential penalties until the performance criteria relating to the penalties have been achieved. Bonus and other performance incentives, as well as termination payments, are recognized as revenue in the period earned and when payment of the bonus, incentive or other payment is assured. Under performance based contracts, revenue is recognized when the performance based parameters are achieved.

Program expenses consist primarily of the costs associated with executing product detailing programs, performance based contracts or other sales and marketing services identified in the contract. Program expenses 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. Personnel costs, which constitute the largest portion of program expenses, include all labor related costs, such as salaries, bonuses, fringe benefits and payroll taxes for the sales representatives and sales managers and professional staff who 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. 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. 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. Product detailing, marketing and promotional expenses related to the detailing of products we distribute are recorded as a selling expense and are included in other selling, general and administrative expenses in the consolidated statements of operations.

As a result of the revenue recognition and program expense policies described above, we may incur significant initial direct program costs before recognizing revenue under a particular product detailing program. We typically receive an initial contract payment upon commencement of a product detailing program as compensation for recruiting, hiring and training services associated with staffing that program. In these cases, the initial payment is recorded as revenue in the same period in which the costs of the services are incurred. Our inability to specifically negotiate for payments that are specifically attributable to recruiting, hiring or training services in our product detailing contracts could adversely impact our operating results for periods in which the costs associated with the product detailing services are incurred.

Product revenue and cost of goods sold

Our only product revenue to date is related to the Ceftin contract which terminated effective February 28, 2002. Product revenue is recognized when products are shipped and title to products is transferred to the customer.

Cost of goods sold includes all expenses for both product distribution costs and manufacturing costs of product sold. Inventory is valued at the lower of cost or market value. Cost is determined using the first in, first out costing method. Inventory to date has consisted of only finished goods. Cost of goods sold and gross margin on sales under the Ceftin agreement fluctuated based on our quantity of product purchased, and our contractual unit costs including applicable discounts, as well as fluctuations in the selling price for products including applicable discounts.

Estimates for accrued rebates, discounts and sales allowances

For product sales, provision is made at the time of sale for all discounts and estimated sales allowances. As is common in our industry, customers who purchased our Ceftin product are permitted to return unused product, after approval from us, up to six months before and one year after the expiration date for the product. The products sold by us prior to the Ceftin agreement termination date of February 28, 2002, have expiration dates through December 2004. Additionally, certain customers were eligible for price rebates or discounts, offered as an incentive to increase sales volume and achieve favorable formulary status, on the basis of volume of purchases or increases in the product's market share over a specified period, and certain customers are credited with chargebacks on the basis of their resales to end-use customers, such as HMO's, which contracted with us for quantity discounts. Furthermore, we are obligated to issue rebates under the federally administered Medicaid program. In each instance we have the historical data and access to other information, including the total demand for the drug we distribute, our market

share, the recent or pending introduction of new drugs or generic competition, the inventory practices of our customers and the resales by our customers to end-users having contracts with us, necessary to reasonably estimate the amount of such returns or allowances, and record reserves for such returns or allowances at the time of sale as a reduction of revenue. The actual payment of these rebates varies depending on the program and can take several calendar quarters before final settlement. As we settle these liabilities in future periods, we will continue to monitor all appropriate information and determine if any positive or negative adjustments are required in that period. Any adjustments will be recorded through revenue in that period.

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. Performance based contracts have the potential for higher returns but also an increased risk of contract loss as compared to the traditional CSO contracts. As discussed in Notes 2 and 3 to the consolidated financial statements, we recognized contract losses in 2002 and 2001 related to the Evista and Ceftin contracts, respectively.

Financial instruments

Our consolidated balance sheets reflect various financial instruments including cash and cash equivalents and investments. We do not engage in trading activities or off-balance sheet financial instruments. As a matter of policy, excess cash and deposits are held by major banks or in high quality short-term liquid instruments. We have investments, mainly in equity instruments, that are carried at fair market value. We do not use derivative instruments such as swaps or forward contracts. As discussed in footnote 8 to the consolidated financial statements, we have certain investments accounted for under the cost method. We review our equity investments for impairment on an ongoing basis based on our determination of whether the decline in market value of the investment below its carrying value is other than temporary.

Deferred taxes - valuation allowance

We evaluate the need for a deferred tax asset valuation allowance by assessing whether it is more likely than not that it will realize certain of its deferred tax assets in the future. The assessment of whether or not a valuation allowance is required often requires significant judgment including the forecast of future taxable income and the

calculation of tax planning initiatives. Adjustments to the deferred tax allowance are made to earnings in the period when such assessment is made.

Goodwill impairment analysis

We adopted SFAS 142, "Goodwill and Other Intangible Assets" in fiscal year 2002. The effect of this adoption on us is that goodwill is no longer amortized but is evaluated for impairment on at least an annual basis. We have established reporting units for purposes of testing goodwill for impairment. The tests involve determining the fair market value of each of the reporting units with which the goodwill was associated and comparing the estimated fair market value of each of the reporting units with its carrying amount. Goodwill has been assigned to the reporting units to which the value of the goodwill relates. We completed the first step of the transitional goodwill impairment test and determined that no impairment existed at January 1, 2002. We will evaluate goodwill and other intangible assets at least on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable based on the estimated future cash flows. We performed the required annual impairment tests in the fourth quarter of 2002 and determined that no impairment existed at December 31, 2002.

Restructuring and other related expenses

In order to consolidate operations, downsize and improve operating efficiencies, we have recorded restructuring charges. As a result, we have made estimates and judgments regarding employee termination benefits and other exit costs to be incurred when the restructuring actions take place. Actual results

could vary from these estimates which would result in adjustments made in future periods.

Contingencies

In the normal course of business, we are subject to contingencies, such as legal proceedings and tax matters. In accordance with SFAS No. 5, Accounting for Contingencies, we record accruals for such contingencies when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated. For a discussion of legal contingencies, please refer to footnote 20 to the consolidated financial statements.

Consolidated Results of Operations

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

<TABLE>
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	Years Ended December 31,				
Operating data	2002	2001	2000	1999	1998
<S>	<C>	<C>	<C>	<C>	<C>
Revenue					
Service, net	97.7%	40.4%	75.8%	100.0%	100.0%
Product, net	2.3	59.6	24.2	--	--
Total revenue, net	100.0	100.0	100.0	100.0	100.0
Cost of goods and services					
Program expenses	89.5	33.3	56.5	74.4	73.6
Cost of goods sold	--	47.2	16.5	--	--
Total cost of goods and services	89.5	80.5	73.0	74.4	73.6
Gross profit	10.5	19.5	27.0	25.6	26.4
Operating expenses					
Compensation expense	11.5	5.7	7.9	11.2	13.2
Other selling, general and administrative expenses	15.5	12.1	9.3	5.4	5.5
Restructuring and other related expenses	1.1	--	--	--	--
Acquisition and related expenses	--	--	--	0.7	--
Total operating expenses	28.1	17.8	17.2	17.3	18.7
Operating (loss) income	(17.6)	1.7	9.8	8.3	7.7
Other income, net	0.7	0.3	1.2	2.0	1.9
(Loss) income before (benefit) provision for income taxes	(16.9)	2.0	11.0	10.3	9.6
(Benefit) provision for income taxes	(6.1)	1.2	4.5	4.3	1.4
Net (loss) income	(10.8)%	0.8%	6.5%	6.0%	8.2%
Pro forma data (unaudited)					
Income (loss) before pro forma provision for income taxes			10.3%	9.6%	
Pro forma provision for income taxes			4.4	3.8	
Pro forma net income (loss)			5.9%	5.8%	

</TABLE>

Comparison of 2002 and 2001

<TABLE>
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Revenue, net

(000's)	Product				Service			
	2002	2001	variance fav/(unfav)	% variance	2002	2001	variance fav/(unfav)	% variance
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
SMSG	$ --	$ --	$ --	0.0%	$179,067	$250,838	$(71,771)	(28.6)%
PPG	6,438	415,314	(408,876)	(98.4)%	88,538	27,671	60,867	220.0%
MD&D	--	--	--	0.0%	9,970	2,760	7,210	261.2%
Total	$6,438	$415,314	$(408,876)	(98.4)%	$277,575	$281,269	$ (3,694)	(1.3)%

</TABLE>

Revenue, net. Net revenue for 2002 was $284.0 million, 59.2% less than net revenue of $696.6 million for the prior year period. This decrease of $412.6 million was almost entirely due to the mutual termination of the marketing sales and distribution contract with GSK for Ceftin; this product lost its patent protection in early 2002 and as a result we recorded only $6.4 million of product revenue in 2002, of which $5.7 million was attributable to changes in estimates related to sales returns, discounts and rebates recorded on previous Ceftin sales. Service revenue was $277.6 million in 2002, a reduction of $3.7 million or 1.3% from the $281.3 million recorded in 2001.

There was a $71.8 million revenue reduction for the SMSG segment, primarily attributable to the loss of several significant dedicated CSO contracts and the general decrease in demand within our markets for sales and marketing services. This unfavorable variance was almost totally offset by the revenue increase for the PPG segment which had revenues of $88.5 million in 2002 compared to $27.7 million in 2001; the major reason for this increase was our Novartis contracts through which we provided services for Lotensin and Lotrel for all of 2002 and through which we added the Diovan products to our service base in May 2002. In 2003, the Lotrel and Diovan contract will be classified in the SMSG segment since the nature of the contract has changed from a pure performance based contract where we were not assured of recouping our expenses, to a more traditional fee for service contract where we have greater certainty of recouping our expenses with the additional potential for incentives at year end based on achieving certain performance criteria. Revenues for MD&D were $10.0 million for 2002 vs. $2.8 million in 2001 due to the fact we recorded revenue for InServe for the entire year of 2002 as opposed to only three and one-half months in 2001, and we earned modest revenue of $1.7 million from the initiation of our MD&D contract sales unit in 2002.

<TABLE>
<CAPTION>
Cost of goods and services

(000's)	Product				Service			
	2002	2001	variance fav/(unfav)	% variance	2002	2001	variance fav/(unfav)	% variance
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
SMSG	$ --	$ --	$ --	0.0%	$133,113	$187,162	$ 54,049	28.9%
PPG	--	328,629	328,629	100.0%	113,751	43,205	(70,546)	(163.3)%
MD&D	--	--	--	0.0%	7,276	1,804	(5,472)	(303.3)%
Total	$ --	$328,629	$328,629	100.0%	$254,140	$232,171	$(21,969)	(9.5)%

</TABLE>

Costs of goods and services. Cost of goods and services for 2002 was $254.1 million, which was $306.7 million or 54.7% less than cost of goods and services of $560.8 million for 2001. The mutual termination of the Ceftin contract resulted in a $328.6 million reduction in cost of goods and services for the product category. During 2002 the cost of goods and services for the

service category was $254.1 million, an increase of $21.9 million compared to 2001, and the gross profit for the category was $23.4 million in 2002 versus $49.1 million in 2001. Despite the 28.6% revenue reduction for the SMSG segment, the group maintained its gross profit margin, achieving a 25.7% gross profit margin in 2002 compared to 25.4% in 2001. PPG has suffered a negative gross profit for both years. During 2001, the negative gross profit for PPG service of $15.4 million was mostly due to startup expenses and lower than expected product performance on the Novartis contracts. During 2002 the Novartis contracts achieved a positive gross profit but the Evista contract resulted in a $34.7 million negative gross profit. Excluding the Evista contract, total PPG would have earned a positive gross profit of $16.0 million and a 17.6% gross margin, which is lower than the SMSG margin by 8.1 percentage points. Performance based contracts can achieve a gross profit percentage above our historical averages for contract sales programs if the performance of the product(s) meets or exceeds expectations, but can be below normal gross profit standards if the performance of the product(s) falls short of baselines. The Evista contract has been terminated as of December 31 2002 and therefore will not adversely affect 2003. The MD&D segment has earned a modest gross profit in both years.

Compensation expense. Compensation expense for 2002 was $32.7 million, 16.8% less than $39.3 million for the comparable prior year period. As a percentage of total net revenue, compensation expense increased to 11.5% for 2002 from 5.7% for 2001. Compensation expense for 2002 attributable to the sales and marketing services segment was $19.6 million compared to $28.6 million for 2001. As a percentage of net revenue from the sales and marketing services segment, compensation expense decreased slightly to 11.0% for 2002 from 11.4% for 2001. Compensation expense for 2002 attributable to the PPG segment was $10.4 million, or 10.9% of PPG net revenue, compared to $10.1 million, or 2.3% in the prior year period. Compensation expense for 2002 attributable to the MD&D segment was $2.7 million, or 26.8% of MD&D net revenue, compared to $0.6 million for three and one-half months of 2001.

Other selling, general and administrative expenses. Total other SG&A expenses were $44.2 million for 2002, 47.3% less than other selling, general and administrative expenses of $83.8 million (of which $46.9 million was

related to Ceftin activities) for 2001. As a percentage of total net revenue, total other SG&A expenses increased to 15.5% for 2002 from 12.1% for 2001. Other SG&A expenses attributable to the sales and marketing services segment for 2002 were $15.8 million, $2.8 million less than other SG&A expenses of $18.6 million attributable to that segment for the comparable prior year period. As a percentage of net revenue from the sales and marketing services segment, other SG&A expenses were 8.8% and 7.4% for 2002 and 2001, respectively. Other selling, general and administrative expenses attributable to the PPG segment for 2002 were $25.7 million, included in this amount is the $15.0 million initial licensing fee expense associated with the Cellegy agreement. For 2001, other selling, general and administrative expenses attributable to the PPG segment were $64.6 million. Excluding $46.9 million in Ceftin field and other promotional expenses, other selling, general and administrative expenses for 2001 were $17.7 million. Other SG&A expenses attributable to MD&D segment for 2002 were $2.7 million, $2.1 million more than other SG&A expenses of $0.6 million for three and one-half months of 2001. As a percentage of net revenue from the MD&D segment, other SG&A expenses were 26.7% and 21.7% for 2002 and 2001, respectively.

Both compensation and other selling, general and administrative expenses were higher as a percentage of revenue in the 2002 period than they were in 2001, even after excluding the SG&A expenses associated with the Ceftin contract. This factor, considered with management's overall assessment of market conditions and our cost structure, prompted us to undertake cost reduction initiatives (see "Restructuring and Other Related Expenses").

Operating (loss) income

(000's)	2002	2001	variance fav/(unfav)
SMSG	$ 7,908	$ 16,476	$ (8,568)
PPG	(55,210)	(3,536)	(51,674)

MD&D	(2,873)	(235)	(2,638)
Total	$(50,175)	$ 12,705	$(62,880)

Operating loss. There was an operating loss for 2002 of $50.2 million, compared to operating income of $12.7 million for 2001. The 2002 period operating loss was primarily the result of losses generated by the performance based contracts and from recording $15.0 million in licensing fee expenses associated with the Cellegy agreement. Operating income for 2002 for the sales and marketing services segment was $7.9 million, or 52.0% less than the sales and marketing services operating income for 2001 of $16.5 million. As a percentage of net revenue from the sales and marketing services segment, operating income for that segment decreased to 4.4% for 2002, from 6.7% for 2001. There was an operating loss for the PPG segment for 2002 of $55.2 million almost entirely attributable to the $35.1 million operating loss for the Evista contract and the $15.0 million initial licensing fee associated with the Cellegy agreement. There was an operating loss for 2002 for the MD&D segment of $2.9 million compared to an operating loss of $0.2 million in the prior period. The 2002 loss was due primarily to startup costs in preparation for the January 2003 Xylos product launch and the initial efforts of the CSO unit.

Other income, net. Other income, net, for 2002 and 2001 was $2.0 million and $2.3 million, respectively. For 2002, other income, net, was primarily comprised of $2.5 million in other income and net interest income. The reduction this year is primarily due to significantly lower interest rates and reduced investments in 2002, which was partially offset by losses on investments and securities of approximately $0.5 million.

Benefit for income taxes. There was an income tax benefit of $17.4 million for 2002, compared to an income tax provision of $8.6 million for 2001, which consisted of Federal and state corporate income taxes. The effective tax benefit rate for 2002 was 36.2%, compared to an effective tax rate of 57.6% for 2001. During 2002, the benefit rate was lower than the target rate of 41% to 42% primarily as a result of the effect of current state valuation allowances recorded for certain states where the benefit from the net operating losses may not be realized and the effect of non-deductible routinely incurred expenses. During 2001, the increase in the effective tax rate was attributable to several specific transactions or situations that when applied to our lower than normal pretax earnings created a large deviation from our target effective tax rate. For example, certain nondeductible expenses which are routinely incurred in relatively consistent amounts had a significantly higher impact on the effective tax rate in 2001, compared to prior years, due to the lower level of pretax profits.

Net loss. There was a net loss for 2002 of $30.8 million, compared to net income of $6.4 million for 2001 due to the factors discussed above.

Comparison of 2001 and 2000

The comparisons reflect the segment composition that existed at December 31, 2001, and have not been restated to reflect any changes for 2002.

Revenue, net. Net revenue for 2001 was $696.6 million, an increase of 67.1% over net revenue of $416.9 million for 2000. Net revenue from the contract sales and marketing services segment for the year ended December 31, 2001 was $281.3 million, a decrease of $34.6 million, or 11.0%, compared to net revenue from that segment of $315.9 million for the prior year. This decrease was primarily attributable to the loss of one large CSO contract, and the reduction in size, or non-renewal of several others. These losses were partially offset by moderate gains in new business, generally reflecting slower demand for traditional contract sales services. We gained two large performance based contracts during the year, reflecting increased demand for our LCXT and copromotion services, although both fell short of our 2001 revenue expectations. Net product revenue for the year ended December 31, 2001 was $415.3 million, an increase of $314.3 million, or 311.2%, over net product revenue of $101.0 million for the prior year. All product revenue was attributable to sales of Ceftin, for which we had distribution rights for the entire 2001 year and only the fourth quarter of 2000.

Cost of goods and services. Cost of goods and services for the year ended December 31, 2001 was $560.8 million, an increase of 84.3% over cost of goods and services of $304.3 million for the year ended December 31, 2000. As a percentage of total net revenue, cost of goods and services increased to 80.5% in 2001 from 73.0% in 2000. This increase as a percentage of revenue was primarily attributable to the reserve for losses on the Ceftin contract that were recorded in the third quarter of 2001 due to the U.S. Court of Appeals decision in August 2001 which allowed for earlier generic competition. This reserve included certain selling, general and administrative expenses which we were obligated to incur under the Ceftin contract termination agreement. Program expenses (i.e., cost of services) for 2001 were $232.2 million, a decrease of 1.4% over program expenses of $235.4 million for 2000. As a percentage of net service revenue, program expenses for 2001 were 82.5%, an increase of 8.0% over program expenses as a percentage of net service revenue in 2000 of 74.5%, primarily because of lower than expected revenues for the performance based contracts (Novartis and Eli Lilly) that began in the second quarter; excluding the effect of these contracts, program expenses would have been 67.2% of service revenue. Performance based contracts can achieve a gross profit percentage above our historical averages for CSO programs if the performance of the product(s) meets or exceeds expectations, but can be below normal gross profit standards if the performance of the product falls short of expectations. Cost of goods sold was $328.6 million for the year ended December 31, 2001, an increase of $259.6 million, or 376.3% above cost of goods sold of $69.0 million for the prior year. As a percentage of net product revenue, cost of goods sold for 2001 and 2000 was 79.1% and 68.3%, respectively. The loss on the Ceftin contract includes the costs we were obligated to incur under the termination agreement with GSK. This included certain marketing and selling costs previously treated as selling, general and administrative expenses. Specifically, the associated selling, general and administrative expenses incurred during the fourth quarter of 2001 of $21.0 million and the $12.3 million of selling, general and administrative expenses anticipated for the remainder of the contract termination period, which extended through February 28, 2002, have been classified as cost of goods sold. Excluding the $21.0 million charge and the remaining reserve of $12.3 million, cost of goods sold as a percentage of net product revenue would have been 71.1%. As our previous reports have noted, cost of goods sold and gross margin on sales could fluctuate based on our quantity of product purchased, and our contractual unit costs including applicable discounts, as well as fluctuations in the selling price for our products including applicable discounts. During the fourth quarter of 2001, we were adversely affected as our selling price reflected greater discounts than normal and our purchasing discounts were reduced because of our agreement with GSK to forego such discounts in exchange for a release from our contractual minimum inventory purchase requirements for the fourth quarter.

Compensation expense. Compensation expense for 2001 was $39.3 million compared to $32.8 million for 2000. As a percentage of total net revenue, compensation expense decreased to 5.7% for 2001 from 7.9% for 2000. Compensation expense for the year ended December 31, 2001 attributable to the contract sales and marketing services segment was $33.2 million compared to $31.8 million for the year ended December 31, 2000. As a

percentage of net revenue from that segment, compensation expense increased to 11.8% in 2001 from 10.1% in 2000. Compensation expense for the year ended December 31, 2001 attributable to the product segment was $6.1 million compared to $1.0 million for the prior year. As a percentage of net revenue from the product segment, compensation expense increased to 1.5% in 2001 from 1.0% in 2000. The low compensation expense for this segment contributed greatly to the overall reduction in compensation expense as a percentage of total net revenue.

Other selling, general and administrative expenses. Total other selling, general and administrative expenses were $83.8 million for the year ended December 31, 2001, an increase of 115.9% over other selling, general and administrative expenses of $38.8 million for 2000. As a percentage of total net revenue, total other selling, general and administrative expenses increased to 12.1% for 2001 from 9.3% for 2000. Other selling, general and administrative expenses attributable to contract sales and marketing services for the year ended December 31, 2001 were $22.7 million, an increase of 34.4% over other selling, general and administrative expenses of $16.9 million attributable to that segment for 2000. As a percentage of net revenue from contract sales and marketing services, other selling, general and administrative expenses for 2001

and 2000 were 8.1% and 5.4%, respectively. This increase was primarily due to facilities expansion resulting in increased rental expense, discretionary expenditures in information technology resulting in increased depreciation expense and other expense categories, most notably professional fees; and the largest increases were marketing expenses related to advertising and promotion associated with our new service offerings. Other selling, general and administrative expenses attributable to the product segment for 2001 were $61.1 million, or 14.6% of net product revenue, an increase of $39.2 million, or 178.7%, over other selling, general and administrative expenses of $21.9 million, or 21.7% of net product revenue, for the year ended December 31, 2001. As discussed previously, approximately $21 million of committed selling expenses were included in the determination of the loss on the Ceftin contract which was recorded through cost of goods sold. If this $21.0 million had been included, total other selling, general and administrative expenses as a percentage of revenue would have been 19.8%. Other selling, general and administrative expenses for the product segment consisted primarily of field selling costs, direct marketing expenses, business insurance and professional fees; all of these costs were fully implemented in 2001, while during the fourth quarter of 2000 the related capabilities were being developed. The seasonality of Ceftin sales also caused other selling, general and administrative expenses to vary as a percentage of revenue.

Operating income. Operating income for 2001 was $12.7 million, a decrease of $28.2 million, or 68.9%, compared to operating income of $40.9 million for 2000. There was an operating loss for 2001 for the contract sales and marketing services segment of $6.8 million, compared to contract sales and marketing services operating income in 2000 of $31.8 million. The performance based contracts instituted beginning in May 2001 incurred a negative gross profit and a significant operating loss in the third and fourth quarters of 2001, thereby having an adverse effect on the services segment. Operating income for the product segment for 2001 was $19.5 million, or 4.7% of net product revenue, compared to $9.1 million, or 9.0% of net product revenue in 2000.

Other income, net. Other income, net, for 2001 was $2.3 million, compared to other income, net of $4.9 million for 2000. Interest income of $5.0 million was the primary component of other income, net in 2001, compared to $7.4 million in 2000. The $2.4 million decrease in interest income in 2001 compared to 2000 was the result of lower available average cash balances, as well as decreasing interest rates throughout 2001. The $5.0 million in interest income for 2001 was partially offset by the $1.9 million loss on investment in In2Focus. In 2000, a $2.5 million loss was recorded resulting from our investment in iPhysicianNet .

Provision for income taxes. The income tax provision for the year ended December 31, 2001 was $8.6 million compared to a $18.7 million tax provision for the year ended December 31, 2000, which consisted of Federal and state corporate income taxes. The effective tax rate for the year ended December 31, 2001 was 57.6%, compared to an effective tax rate of 40.9% for the prior year. During 2001, the increase in the effective tax rate was attributable to several specific transactions or situations that when applied to our lower than normal pretax earnings created a large deviation from our target effective tax rate of 41% to 42%. During 2001, we wrote off our investment in In2Focus in the amount of $1.9 million which will likely be treated as a capital loss for tax purposes, the benefit of which can only be realized via an offset against capital gains. Since we do not anticipate having offsetting capital gains, a valuation allowance was recorded. In addition, certain nondeductible expenses which are routinely incurred had a significantly higher impact on the effective tax rate in 2001, compared to prior years, due to the lower level of pretax profits.

Net income. Net income for 2001 was $6.4 million, 76.5% lower than net income of $27.0 million in 2000 due to the factors previously discussed.

Restructuring and Other Related Expenses

During the third quarter of 2002, we adopted a restructuring plan, the objectives of which were to consolidate operations in order to enhance operating efficiencies (the 2002 Restructuring Plan). This plan was primarily in response to the general decrease in demand within our markets for sales and marketing services and the recognition that the infrastructure that supported these business units was larger than required. The majority of the restructuring activities were completed by December 31, 2002, with full completion expected by

September 30, 2003.

In connection with this plan, we will record total restructuring expenses of approximately $5.4 million, other non-recurring expenses of approximately $0.1 million, and accelerated depreciation of approximately $0.8 million. All but $0.3 million of these expenses were recognized in 2002.

The primary items comprising the restructuring are as follows:

- $3.7 million in severance expense consisting of cash and non-cash termination payments to employees in connection with their involuntary termination. Out of approximately 175 employees affected, 170 have left as of January 15, 2003, and the remaining employees are expected to leave by mid-2003. All of the severance costs were expensed in the fourth quarter of 2002. We have recorded the portion of this severance related to the direct sales force of approximately $1.8 million in program expenses in the consolidated statement of operations while the severance costs associated with administrative personnel of approximately $1.9 million have been recorded in the restructuring and other related expenses in the consolidated statement of operations; and

- $1.7 million in restructuring costs consisting primarily of $1.3 million for reserves in connection with the closure or exit of leased space located in Mahwah, NJ, Cincinnati, OH (which was closed effective January 15, 2003), Lawrenceville, NJ, Fort Washington, PA and Novato, CA (which will be effective May 2003). These costs are recorded in restructuring and other related expenses line in the consolidated statement of operations. The remaining $0.4 million in restructuring expenses is related to certain other costs associated with the termination of the sales force that was eliminated in the restructuring and similar to the severance, such costs have been classified in program expenses in the consolidated statement of operations. Approximately $0.2 million of these expenses will be recognized in 2003.

The other related expenses relate to the write off of fixed assets associated with certain of our facilities being closed or exited as part of the restructuring plan of approximately $0.2 million. The accelerated depreciation expenses of $0.8 million relate to the assets to be disposed of but that were still in service, some through December 31, 2002, and the rest through January 15, 2003. This accelerated depreciation is recorded in selling, general and administrative expenses in the consolidated statement of operations, consistent with its historical classification.

The accrual for restructuring and exit costs, totaled approximately $4.7 million at December 31, 2002, and is recorded in current liabilities on the accompanying balance sheet.

A roll forward of the activity for the 2002 Restructuring Plan (in thousands) is as follows:

<TABLE>
<CAPTION>

	Balance at December 31, 2001	Accruals	Write offs/ Payments	Balance at December 31, 2002
<S>	<C>	<C>	<C>	<C>
Administrative severance	$ --	$ 1,927	$ (257)	$1,670
Exit costs	--	1,288	--	1,288
	$ --	$ 3,215	$ (257)	$2,958
Sales force severance	--	1,741	--	1,741
Asset write offs	--	150	(150)	--
Total	$ --	$ 5,106	$ (407)	$4,699

</TABLE>

Liquidity and Capital Resources

As of December 31, 2002, we had cash and cash equivalents of approximately $66.8 million and working capital of $81.9 million, compared to cash and cash equivalents of approximately $160.0 million and working capital of approximately $113.7 million at December 31, 2001.

For the year ended December 31, 2002, net cash used in operating activities was $89.0 million, compared to $80.1 million net cash provided by operating activities in 2001. The main components of cash used in operating activities were:

- a net loss from operations of $30.8 million; less depreciation and amortization of $7.4 million, reducing total cash outflow to approximately $23.4 million;
- reduction in accrued returns, rebates and sales discounts associated with the Ceftin agreement of $51.9 million; the amounts remaining are deemed sufficient to pay any future rebates, discounts or returns of the product;
- elimination of accrual for contract losses of $12.3 million associated with the Ceftin agreement as amounts were incurred against the accrual, and
- cash used from other changes in assets and liabilities of $8.7 million, almost entirely offset by a reduction in deferred tax assets of $8.5 million.

Inventory increased by $0.2 million in 2002. All inventory as of December 31, 2002 is associated with our XCell wound care product distribution agreement with Xylos. At December 31, 2001, all inventory consisted of Ceftin product.

Due to the ability to carry back net operating losses incurred for the year ended December 31, 2002, we expect to receive a refund of approximately $20.3 million in 2003.

When we bill clients for services before they have been completed, billed amounts are recorded as unearned contract revenue, and are recorded as income when earned. When services are performed in advance of billing, the value of such services is recorded as unbilled costs and accrued profits. As of December 31, 2002, we had $9.5 million of unearned contract revenue and $3.4 million of unbilled costs and accrued profits. Substantially all costs and accrued profits are earned and billed within 12 months from the end of the respective period.

The net changes in the "Other changes in assets and liabilities" section of the consolidated statement of cash flows may fluctuate depending on a number of factors, including seasonality of product sales, number and size of programs, contract terms and other timing issues; these variations may change in size and direction with each reporting period.

For the year ended December 31, 2002, net cash used in investing activities of $6.6 million consisted of $4.0 million in purchases of property and equipment, $1.0 million invested in the preferred stock of Xylos, $0.4 million invested in iPhysicianNet and $2.7 million related to the acquisition of InServe, partially offset by the sale of $1.5 million in short-term investments.

For the year ended December 31, 2002, net cash provided by financing activities was $2.4 million. This amount is attributable to net proceeds received from the employee stock purchase plan of $2.3 million and $0.1 million in proceeds received from the exercise of stock options by employees.

Capital expenditures during the periods ended December 31, 2002, 2001 and 2000, were $4.0 million, $15.6 million and $7.9 million respectively, and were funded from available cash. For part of 2000 and all of 2001, capital expenditures were larger than usual due to our software expenditures and costs associated with the implementation of PeopleSoft ($7.1 million) and Siebel ($4.1 million).

Our credit line with PNC Bank, N.A., as administrative and syndication agent, which was designed to accommodate our needs under the Ceftin agreement, was terminated effective March 31, 2002. We are currently exploring opportunities to enter into a credit facility secured by our current assets to meet our existing needs.

We believe that our existing cash balances and expected cash flows generated from operations will be sufficient to meet our operating and capital requirements for the next 12 months. We continue to evaluate and review financing opportunities and acquisition candidates in the ordinary course of business.

Contractual Obligations

As of December 31, 2002, the aggregate minimum future rental payments required by non-cancelable operating leases with initial or remaining lease terms exceeding one year are as follows:

<TABLE>
<CAPTION>

(in thousands)	2003	2004	2005	2006	2007	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Operating leases						
Minimum lease payments	$ 3,525	$ 2,613	$ 1,137	$136	$ 3	$ 7,414
Less minimum sublease rentals	(101)	(135)	(34)	--	--	(270)
Net minimum lease payments	$ 3,424	$ 2,478	$ 1,103	$136	$ 3	$ 7,144

</TABLE>

Under the terms of the Xylos agreement relating to Xcell, the minimum annual purchase requirement for the calendar year 2003 is $750,000. The minimum annual purchase requirement for each subsequent calendar year is based on the aggregate dollar volume of sales of products during the 12-month period ending with September of the prior year, but in no case can be less than $750,000.

Quarterly Operating Results

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, the timing of commencement, completion or cancellation of major programs. 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 and products are shipped. 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. A significant portion of this revenue could be recognized in the fourth quarter of a year. Costs of goods sold are expensed when products are shipped. For milestone payments associated with licensing agreements, amounts paid before the underlying product has obtained regulatory approval and which have no alternate use are expensed as incurred, whereas payments post-approval are capitalized and amortized over the economic life of the product or agreement. We believe that because of these fluctuations, quarterly comparisons of our financial results cannot be relied upon as an indication of future performance.

The following table sets forth quarterly operating results for the eight quarters ended December 31, 2002:

<TABLE>
<CAPTION>

	Quarter Ended							
	Mar 31, 2002	Jun 30, 2002	Sep 30, 2002	Dec 31, 2002	Mar 31, 2001	Jun 30, 2001	Sep 30, 2001	Dec 31, 2001

(in thousands)

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue								
Service, net	$ 68,160	$ 66,033	$ 64,353	$ 79,029	$ 78,087	$ 64,789	$ 71,129	$ 67,264
Product, net	5,723	500	215	--	94,978	79,155	44,544	196,637
Total revenue, net	73,883	66,533	64,568	79,029	173,065	143,944	115,673	263,901
Cost of goods and services								
Program expenses	67,277	65,721	67,475	53,667	55,395	53,321	59,529	63,926
Cost of goods sold	--	--	--	--	64,215	51,523	51,823	161,068
Total cost of goods and services	67,277	65,721	67,475	513,667	119,610	104,844	111,352	224,994
Gross profit (loss)	6,606	812	(2,907)	25,362	53,455	39,100	4,321	38,907
Operating expenses								
Compensation expense	7,759	9,294	9,157	6,459	11,015	9,162	9,282	9,804
Other selling, general and administrative expenses	3,325	6,450	9,433	22,956	25,728	23,546	24,560	9,981
Restructuring and other related expenses	--	--	972	4,243	--	--	--	--
Total operating expenses	11,084	15,744	19,562	33,658	36,743	32,708	33,842	19,785
Operating (loss) income	(4,478)	(14,932)	(22,469)	(8,296)	16,712	6,392	(29,521)	19,122
Other income (expense), net	889	356	459	263	1,870	1,537	999	(2,132)
(Loss) income before provision for taxes	(3,589)	(14,576)	(22,010)	(8,033)	18,582	7,929	(28,522)	16,990
(Benefit) provision for income taxes	(1,322)	(5,385)	(7,696)	(3,044)	7,653	3,527	(11,266)	8,711
Net (loss) income	$ (2,267)	$ (9,191)	$(14,314)	$ (4,989)	$ 10,929	$ 4,402	$(17,256)	$ 8,279
Basic net (loss) income per share	$ (0.16)	$ (0.66)	$ (1.02)	$ (0.35)	$ 0.79	$ 0.32	$ (1.24)	$ 0.59
Diluted net (loss) income per share	$ (0.16)	$ (0.66)	$ (1.02)	$ (0.35)	$ 0.77	$ 0.31	$ (1.24)	$ 0.59
Weighted average number of shares:								
Basic	13,969	14,003	14,063	14,097	13,843	13,856	13,876	13,968
Diluted	13,969	14,003	14,063	14,097	14,133	14,246	13,876	14,010

</TABLE>

Effect of new accounting pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." (Issue 94-3) This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. We do not expect the adoption of this statement to have a material effect on its financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure- an amendment of FASB Statement No. 123." (SFAS No. 148). This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement requires that companies having a year-end after December 15, 2002 follow the prescribed format and provide the

additional disclosures in their annual reports. We have provided the disclosures required by FAS No. 148 in the financial statements. We do not currently intend to change the method of accounting for stock options and we do not expect the adoption of this statement to have a material effect on its financial statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 requires a variable interest entity to be consolidated by a company, if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual

returns or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The initial adoption of this accounting pronouncement will not have a material impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements and the required financial statement schedule are included herein beginning on page F-1.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

Directors and executive officers

The following table sets forth the names, ages and positions of our directors, executive officers and key employees:

<TABLE>
<CAPTION>

Name	Age	Position
<S>	<C>	<C>
John P. Dugan	67	Chairman of the board of directors and director of strategic planning
Charles T. Saldarini	39	Chief executive officer and vice chairman of the board of directors
Steven K. Budd	46	President and chief operating officer
Bernard C. Boyle	58	Chief financial officer, executive vice president, secretary and treasurer
Stephen Cotugno	43	Executive vice president -- corporate development and investor relations
Lloyd X. Fishman	50	Executive vice president and general manager -- PDI medical devices and diagnostics
Robert R. Higgins	60	Executive vice president and general manager -- sales and marketing services group
Beth R. Jacobson	42	Executive vice president and general counsel
Leonard Mormando	63	Executive vice president -- corporate operations support
Deborah Schnell	48	Executive vice president -- business development
Christopher Tama	44	Executive vice president and general manager -- PDI pharmaceutical products group
Larry Ellberger(1)	55	Director
John C. Federspiel (1)	49	Director
Gerald J. Mossinghoff	67	Director
John M. Pietruski (1)(2)	69	Director
Frank J. Ryan(2)	63	Director

Jan Martens Vecsi (2)	59	Director

</TABLE>

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(1) Member of audit committee.
(2) Member of compensation committee.

John P. Dugan is our founder, chairman of the board of directors and director of strategic planning. He served as our president from inception until January 1995 and as our chief executive officer from inception until November 1997. In 1972, Mr. Dugan founded Dugan Communications, a medical advertising agency that later became known as Dugan Farley Communications Associates Inc. and served as its president until 1990. We were a wholly-owned subsidiary of Dugan Farley in 1990 when Mr. Dugan became our sole stockholder. Mr. Dugan was a founder and served as the president of the Medical Advertising Agency Association from 1983 to 1984. Mr. Dugan also served on the board of directors of the Pharmaceutical Advertising Council (now known as the Healthcare Marketing Communications Council, Inc.) and was its president from 1985 to 1986. Mr. Dugan received an M.B.A. from Boston University in 1964.

Charles T. Saldarini is our vice chairman and chief executive officer. Joining PDI in 1987, Mr. Saldarini has held positions of increasing responsibility, becoming president of PDI in January 1995, chief executive officer in November 1997, and vice chairman in June 2000. In his 16 years at PDI, his contributions have spanned the full range of our development. He is responsible for making PDI the largest contract sales organization in the U.S. Mr. Saldarini is a frequent speaker on industry topics and an author, with numerous industry publications to his credit. Prior to PDI, Mr. Saldarini worked at Merrill Dow Pharmaceuticals. He received a B.A. in political science from Syracuse University in 1985.

Steven K. Budd has served as our president and chief operating officer since June 2000. Mr. Budd oversees the management of PDI's operating units and key internal support functions and contributes to the development of PDI's strategic plans. Mr. Budd joined us in April 1996 as vice president, account group sales. He became executive vice president in July 1997, chief operating officer in January 1998, and our president in June 2000. From January 1994 through April 1995, Mr. Budd was employed by Innovex, Inc., as director of new business development. From 1989 through December 1993, he was employed by Professional Detailing Network (now known as Nelson Professional Sales, a division of Nelson Communications, Inc.), as vice president with responsibility for building sales teams and developing marketing strategies. Mr. Budd received a B.A. in history and education from Susquehanna University in 1978.

Bernard C. Boyle has served as our chief financial officer and executive vice president since March 1997. In 1990, Mr. Boyle founded BCB Awareness, Inc., a firm that provided management advisory services, and served as its president until March 1997. During that period he was also a partner in Boyle & Palazzolo, Partners, an accounting firm. From 1982 through 1990 he served as controller and then chief financial officer and treasurer of William Douglas McAdams, Inc., an advertising agency. From 1966 through 1971, Mr. Boyle was employed by the national accounting firm then known as Coopers & Lybrand L.L.P. as supervisor/senior audit staff. Mr. Boyle received a B.B.A. in accounting from Manhattan College in 1965 and an M.B.A. in corporate finance from New York University in 1972.

Stephen P. Cotugno became our executive vice president - corporate development and investor relations in January 2000. He joined us as a consultant in 1997 and in January 1998 he was hired full time as vice president-corporate development. Prior to joining us, Mr. Cotugno was an independent financial consultant. He received a B.A. in finance and economics from Fordham University in 1981.

Robert R. Higgins became our executive vice president - sales and marketing services group in January 2002. Prior to that, Mr. Higgins served as executive vice president - client programs. He joined us in a field management capacity in August 1996 and became vice president in 1997. Mr. Higgins has over 30 years experience in the pharmaceutical industry. From 1965 to 1995, Mr. Higgins was employed by Burroughs Wellcome Co., where he was responsible for building and managing sales teams and developing and implementing marketing

strategies. Mr. Higgins received a B.S. in biology from Kansas State University in 1964, and an M.B.A. from North Texas State University in 1971.

Leonard Mormando became our executive vice president - corporate operations support in September 2000. Mr. Mormando joined us in 1997 as the executive director of training and development. In 1998, he was promoted to vice president - training and development & recruiting and hiring. Prior to joining PDI, Mr. Mormando spent 32 years at Ciba Geigy Pharmaceuticals, including ten years as director of U.S. training where he was responsible for training over 5,000 sales representatives. Mr. Mormando has been a member of the National Society of Professional Sales Trainers since 1982. He received a B.S. in Biology with a minor in Chemistry from St. Bonaventure University in 1961.

Christopher Tama joined us as executive vice president and general manager - - PDI pharmaceutical products in January 2000. Mr. Tama has responsibility for PDI's at risk programs involving integrated sales and marketing solutions. Prior to joining us, from 1996 through 2000, he was vice president - marketing for Novartis. Mr. Tama has over 20 years experience in various pharmaceutical marketing and sales positions with Novartis, Pharmacia & Upjohn, and Searle. His marketing and sales experience range many different therapeutic areas, both in primary care and specialty markets. He received a B.A. in economics from Villanova University in 1981.

Deborah Schnell is our executive vice president - business development. She was one of the founders of ProtoCall which was acquired by PDI in 1999. Prior to joining ProtoCall, Ms. Schnell spent approximately 20 years with IBM Corporation where she worked across a broad range of areas, including manufacturing, distribution and healthcare. She received a B.A. in speech pathology and audiology from Miami of Ohio University in 1976.

Lloyd X. Fishman joined us as vice president and general manager - PDI medical devices and diagnostics in January 2001 and was promoted to executive vice president and general manager - PDI medical devices and diagnostics in December 2002. From July 1997 through January 2001, he was worldwide director of marketing for Johnson & Johnson. Mr. Fishman has over 25 years of experience in the medical devices industry in a variety of sales and marketing positions. In addition, his background is in several therapeutic areas, including critical care, anesthesia, cardiology, pulmonary and obstetrics. Mr. Fishman was instrumental in launching a number of products including anesthesia monitors, temporary pacing electrodes, hemodynamic monitoring catheters and non-invasive blood pressure monitors. He received a B.A. from Albany State University in 1973 and graduated from St. John's University with an M.B.A. in 1977.

Beth R. Jacobson joined us in November 2002 as executive vice president and general counsel. Previously, she was with Skadden, Arps, Slate, Meagher & Flom, LLP for 15 years, where she practiced corporate law. She received a B.A. from Wesleyan University in 1983 and a J.D. from New York University Law School in 1987.

Gerald J. Mossinghoff became a director in May 1998. Mr. Mossinghoff is a former Assistant Secretary of Commerce and Commissioner of Patents and Trademarks of the Department of Commerce (1981 to 1985) and served as President of Pharmaceutical Research and Manufacturers of America from 1985 to 1996. Since 1997 he has been senior counsel to the law firm of Oblon, Spivak, McClelland, Maier and Newstadt of Arlington, Virginia. Mr. Mossinghoff has been a visiting professor of Intellectual Property Law at the George Washington University Law School since 1997 and Adjunct Professor of Law at George Mason University School of Law since 1997. Mr. Mossinghoff served as U.S. Ambassador to the Diplomatic Conference on the Revision of the Paris Convention from 1982 to 1985 and as Chairman of the General Assembly of the United Nations World Intellectual Property Organization from 1983 to 1985. He is also a former Deputy General Counsel of the National Aeronautics and Space Administration (1976 to 1981). Mr. Mossinghoff received an electrical engineering degree from St. Louis University in 1957 and a juris doctor degree with honors from the George Washington University Law School in 1961. He is a member of the Order of the Coif and is a Fellow in the National Academy of Public Administration. He is the recipient of many honors, including NASA's Distinguished Service Medal and the Secretary of Commerce Award for Distinguished Public Service.

John M. Pietruski became a director in May 1998. Since 1990 Mr. Pietruski

has been the chairman of the board of Texas Biotechnology Corp., a pharmaceutical research and development company. He is a retired chairman of the board and chief executive officer of Sterling Drug Inc. where he was employed from 1977 until his retirement in 1988. Mr. Pietruski is a member of the boards of directors of First Energy Corp., Hershey Foods Corporation, Lincoln National Corporation and Xylos Corporation. Mr. Pietruski graduated Phi Beta Kappa with a B.S. in business administration with honors from Rutgers University in 1954.

Jan Martens Vecsi became a director in May 1998. Ms. Vecsi is the sister-in-law of John P. Dugan, our chairman. Ms. Vecsi was employed by Citibank, N.A. from 1967 through 1996 when she retired. Starting in 1984 she served as the senior human resources officer and vice president of the Citibank Private Bank. Ms. Vecsi received a B.A. in psychology and elementary education from Immaculata College in 1965.

John C. Federspiel became a director in October 2001. Mr. Federspiel is president of Hudson Valley Hospital Center, a 120-bed, short-term, acute care, not-for-profit hospital in Westchester County, New York. Prior to joining Hudson Valley Hospital in 1987, Mr. Federspiel spent an additional 10 years in health administration, during which he held a variety of executive leadership positions. Mr. Federspiel is an appointed Member of the State Hospital Review and Planning Council, and has served as chairman of the Northern Metropolitan Hospital Association, as well as other affiliations. Mr. Federspiel received a B.S. degree from Ohio State University in 1975 and a M.B.A. from Temple University in 1977.

Frank Ryan became a director in November 2002. Mr. Ryan's career includes a 38-year tenure with Johnson & Johnson. Mr. Ryan recently retired as Company Group Chairman with responsibility for worldwide Ethicon franchises and Johnson & Johnson Canada. In addition, Mr. Ryan was a member of the Medical Devices and Diagnostics Operating Group and Leader for the Group in Process Excellence (Six Sigma) and IT. Throughout the years, Mr. Ryan held positions of increasing responsibility, including Worldwide President of Chicopee, President of Johnson and Johnson Hospital Services Co. and President of Ethicon, Inc. Mr. Ryan received a B.S. degree in mechanical engineering from the Illinois Institute of Technology in 1965 and a M.B.A. from the University of Chicago Graduate School of Business in 1969.

Larry Ellberger became a director in February 2003. Since July 2000, Mr. Ellberger has been senior vice president, corporate development, at PowderJect, PLC, a London Stock Exchange listed vaccines company. He has been a member of PowderJect's board of directors since 1997. From October 1999 through March 2000, Mr. Ellberger was chief executive officer of the Kushner Companies, a private real estate concern. Previously, from November 1996 through May 1999, Mr. Ellberger served as chief financial officer of W. R. Grace. Thereafter, from May 1999 through November 1999, he served as senior vice president - corporate development of W.R. Grace. In April 2001, 19 months after Mr. Ellberger's affiliation with W.R. Grace ended, W.R. Grace filed a petition for protection under the U.S. bankruptcy code. Mr. Ellberger received a B.A. in economics from Columbia College in 1968 and a B.S. in chemical engineering from Columbia School of Engineering in 1969.

Our board of directors is divided into three classes. Each year the stockholders elect the members of one of the three classes to a three-year term of office. Messrs. Saldarini, Pietruski and Ryan serve in the class whose term

expires in 2003; Messrs. Dugan and Mossinghoff serve in the class whose term expires in 2004; and Ms. Vecsi and Messrs. Federspiel and Ellberger serve in the class whose term expires in 2005.

Our board of directors has an audit committee and a compensation committee. The audit committee reviews the scope and results of the audit and other services provided by our independent accountants and our internal controls. The compensation committee is responsible for the approval of compensation arrangements for our officers and the review of our compensation plans and policies.

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership

with the Securities and Exchange Commission (SEC). Officers, directors and greater than ten-percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on review of the copies of such forms furnished to us, or written representations that no Forms 5 were required, we believe that all Section 16(a) filing requirements applicable to our officers and directors were complied with.

ITEM 11. EXECUTIVE COMPENSATION

Summary compensation. The following table sets forth certain information concerning compensation paid for services in all capacities awarded to, earned by or paid to our chief executive officer and the other four most highly compensated executive officers during 2002, 2001 and 2000 whose aggregate compensation exceeded $100,000.

<TABLE>
<CAPTION>

	Annual compensation			Long-term compensation		
Name and Principal Position	Salary	Bonus	Other annual compensation	Restricted stock awards(1)	Shares of common stock underlying options	All other compensation
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Charles T. Saldarini						
Vice chairman and chief executive officer						
2002	$350,000	$ --	$3,421	$ --	25,602	$ 446
2001	336,864	179,212	6,264	--	34,066	5,250
2000	294,594	506,731	8,713	--	--	6,203
Steven K. Budd						
President and chief operating officer						
2002	281,187	--	3,085	--	21,188	2,300
2001	262,500	103,819	2,537	44,494	23,338	4,200
2000	225,000	243,003	2,891	104,144	--	4,744
Bernard C. Boyle						
Chief financial officer, executive vice president, secretary and treasurer						
2002	255,625	--	4,301	--	19,156	5,404
2001	232,292	93,863	4,455	40,227	19,900	4,646
2000	187,500	207,211	4,706	88,805	--	4,010
Deborah Schnell						
Executive vice president						
2002	214,967	50,000	6,089	--	25,000	4,121
2001	160,000	124,967	86	31,217	6,196	3,200
2000	155,769	98,312	--	24,557	3,500	--
Christopher Tama						
Executive vice president						
2002	203,500	--	3,568	--	15,421	4,070
2001	189,583	75,561	2,649	32,383	20,168	2,917
2000	167,708	210,000	1,828	90,000	5,000	--

</TABLE>

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(1) For the years ended December 31, 2001 and 2000, a portion of the named executive officers' annual bonus was paid in restricted stock. The number of shares were calculated by dividing the portion of bonus expense attributable to restricted stock by a trailing 20-day average stock price on December 31, 2001 and 2000, which was $20.47 and $99.42, respectively. The fair

market value of the shares owned by the named executive officers on December 31, 2002, based upon the closing price of our common stock of $10.79 on that date,

was as follows: Mr. Budd -- $34,765 (3,222 shares); Mr. Boyle -- $30,838 (2,858 shares); Mr. Tama -- $26,835 (2,487 shares) and Ms. Schnell -- $19,120 (1,772 shares).

Option grants. The following table sets forth certain information regarding options granted by us in 2002 to each of the executives named in the Summary Compensation Table.

<TABLE>
<CAPTION>

Option Grants in Last Fiscal Year

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (1)	
Name	Number of Shares Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/share)	Expiration Date	5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Charles T. Saldarini	25,602	4.6%	$ 15.74	3/7/12	$253,429	$642,239
Steven K. Budd	21,188	3.8%	15.74	3/7/12	209,736	531,512
Bernard C. Boyle	19,156	3.4%	15.74	3/7/12	189,621	480,538
Deborah Schnell	25,000	4.5%	15.74	3/7/12	247,470	627,138
Christopher Tama	15,421	2.8%	15.74	3/7/12	152,649	386,844

</TABLE>

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(1) Potential realizable values are net of exercise price but before taxes, and are based on the assumption that our common stock appreciates at the annual rate shown (compounded annually) from the date of grant until the expiration date of the options. These numbers are calculated based on Securities and Exchange Commission requirements and do not reflect our projection or estimate of future stock price growth. Actual gains, if any, on stock option exercises are dependent on our future financial performance, overall market conditions and the option holder's continued employment through the vesting period. This table does not take into account any appreciation in the price of the common stock from the date of grant to the date of this Form 10-K.

Option exercises and year-end option values. The following table provides information with respect to options exercised by the Named Executive Officers during 2002 and the number and value of unexercised options held by the Named Executive Officers as of December 31, 2002.

Aggregated Option Exercise in Last Fiscal Year and Year-End Option Values

<TABLE>
<CAPTION>

			Number of Shares Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options At Fiscal Year-End (2)	
Name	Shares Acquired on Exercise (#)	Value Realized (1)	Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Charles T. Saldarini	--	--	11,355	48,313	--	--
Steven K. Budd	--	--	32,779	36,747	--	--
Bernard C. Boyle	--	--	26,633	32,423	--	--
Deborah Schnell	--	--	4,399	30,297	--	--
Christopher Tama	--	--	10,056	30,533	--	--

</TABLE>

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(1) For the purposes of this calculation, value is based upon the difference between the exercise price of the options and the stock price at date of exercise.

(2) For the purposes of this calculation, value is based upon the difference between the exercise price of the exercisable and unexercisable options and the stock price at December 31, 2002 of $10.79 per share.

Employment contracts

In January 1998, we entered into an agreement with John P. Dugan providing for his appointment as chairman of the board and director of strategic planning. The agreement provides for an annual salary of $125,000.

In November 2001, we entered into an employment agreement with Charles T. Saldarini providing for his employment as our chief executive officer and vice chairman of the board for a term expiring on October 31, 2005 subject to automatic one-year renewals unless either party gives written notice one-year prior to the end of the then current term of the agreement. The agreement provides for an annual base salary of $350,000 and for participation in all executive benefit plans. The agreement also provides that Mr. Saldarini will be entitled to bonus and incentive compensation awards as determined by the compensation committee. Further, the agreement provides, among other things, that, if Mr. Saldarini's employment is terminated without cause (as defined) or if he terminates his employment for good reason (as defined), we will pay him an amount equal to three times the sum of his then

current base salary plus the average incentive compensation paid to him during the three years immediately preceding the termination date.

In May 2001, we entered into an amended and restated employment agreement with Steven K. Budd providing for his employment as our president and chief operating officer for a term expiring on April 30, 2005 subject to automatic one-year renewals unless either party gives written notice one-year prior to the end of the then current term of the agreement. The agreement provides for an annual base salary of $275,000 and for participation in all executive benefit plans. The agreement also provides that Mr. Budd will be entitled to bonus and incentive compensation awards as determined by the compensation committee. Further, the agreement provides, among other things, that, if Mr. Budd's employment is terminated without cause (as defined) or if he terminates his employment for good reason (as defined), we will pay him an amount equal to three times the sum of his then current base salary plus the average incentive compensation paid to him during the three years immediately preceding the termination date.

In May 2001, we entered into an amended and restated employment agreement with Bernard C. Boyle providing for his employment as our executive vice president and chief financial officer for a term expiring on April 30, 2004 subject to automatic one-year renewals unless either party gives written notice one-year prior to the end of the then current term of the agreement. The agreement provides for an annual base salary of $250,000 and for participation in all executive benefit plans. The agreement also provides that Mr. Boyle will be entitled to bonus and incentive compensation awards as determined by the compensation committee. Further, the agreement provides, among other things, that, if Mr. Boyle's employment is terminated without cause (as defined) or if he terminates his employment for good reason (as defined), we will pay him an amount equal to three times the sum of his then current base salary plus the average incentive compensation paid to him during the three years immediately preceding the termination date.

In February 2003, we entered into an employment agreement with Christopher Tama providing for his employment as our executive vice president for a term expiring on February 4, 2006, subject to automatic one-year renewals unless either party gives written notice at least ninety days prior to the end of the then current term of the agreement. The agreement provides for an annual base salary of $206,000 and for participation in all executive benefit plans. The agreement also provides that Mr. Tama will be entitled to bonus and incentive compensation awards as determined by the compensation committee. Further, the agreement provides, among other things, that, if Mr. Tama's employment is terminated without cause (as defined) or if he terminates his employment for good reason (as defined), we will pay him an amount equal to three times the sum of his then current base salary plus the average incentive compensation paid to him during the three years immediately preceding the termination date.

Compensation committee interlocks and insider participation in compensation decisions

None of the directors serving on the compensation committee of the board of directors is employed by us. In addition, none of our directors or executive officers is a director or executive officer of any other corporation that has a director or executive officer who is also a member of our board of directors.

Stock compensation plans

2000 Omnibus Incentive Compensation Plan

On May 5, 2000 our board of directors approved our 2000 Omnibus Incentive Compensation Plan. The purpose of the Omnibus Plan is to provide a flexible framework that will permit the board to develop and implement a variety of stock-based incentive compensation programs based on our changing needs, our competitive market and the regulatory climate. The maximum number of shares as to which awards or options may at any time be granted under the Omnibus Plan is 2.2 million shares of our common stock. The Omnibus Plan is administered by the compensation committee of the board, which is responsible for developing and implementing specific stock-based plans that are consistent with the intent and specific terms of the framework created by the Omnibus Plan. Eligible participants under the Omnibus Plan include our officers and other employees, members of our board, and outside consultants. The right to grant awards under the Omnibus Plan will terminate upon the expiration of 10 years after

the date the Omnibus Plan was adopted. No participant may be granted more than 100,000 shares of company stock from all awards under the Omnibus Plan.

1998 Stock Option Plan

In order to attract and retain persons necessary for our success, in March 1998, our board of directors adopted our 1998 stock option plan reserving for issuance up to 750,000 shares. Officers, directors, key employees and consultants are eligible to receive incentive and/or non-qualified stock options under this plan. The plan, which has a term of ten years from the date of its adoption, is administered by the compensation committee. The selection of participants, allotment of shares, determination of price and other conditions relating to the purchase of options is determined by the compensation committee in its sole discretion. Incentive stock options granted under the plan are exercisable for a period of up to 10 years from the date of grant at an exercise price which is not less than the fair market value of the common stock on the date of the grant, except that the term of an incentive stock option granted under the plan to a stockholder owning more than 10% of the outstanding common stock may not exceed five years and its exercise price may not be less than 110% of the fair market value of the common stock on the date of the grant.

At December 31, 2002, options for an aggregate of 1,514,297 shares were outstanding under our stock option plans, including 59,668 granted to Charles T. Saldarini, our chief executive officer and vice chairman, 69,526 granted to Steven K. Budd, our president and chief operating officer, 59,056 granted to Bernard C. Boyle, our chief financial officer, 40,589 granted to Christopher Tama, our executive vice president and general manager - PDI pharmaceutical products, and 26,363 granted to Deborah Schnell, our executive vice president - business development. The outstanding options also include 33,750 granted to each of Gerald J. Mossinghoff, John M. Pietruski and Jan Martens Vecsi, 17,500 granted to John C. Federspiel, and 10,000 granted to Frank Ryan, our outside directors. In addition, as of December 31, 2002, options to purchase an aggregate of 333,887 shares of common stock had been exercised.

Compensation of directors

Each non-employee director receives an annual director's fee of $20,000, payable quarterly in arrears, plus $1,000 for each meeting attended in person and $500 for each meeting attended telephonically and reimbursement for travel costs and other out-of-pocket expenses incurred in attending each directors' meeting. In addition, committee members receive $500 for each committee meeting attended in person and $200 for each committee meeting attended telephonically. Under our stock option plans, each non-employee director is granted options to purchase 10,000 shares upon first being elected to our board of directors. In addition, each non-employee director will receive options to purchase an additional 7,500 shares of common stock on the date of our annual stockholders' meeting. All options have an exercise price equal to the fair market value of

the common stock on the date of grant and vest one-third on the date of grant and one-third at the end of each subsequent year of service on the board.

401(k) plan

We maintain two 401(k) retirement plans, one of which is for all PDI employees except for InServe employees (the "PDI plan") and the other is for InServe employees exclusively (the "InServe plan"). Both plans are intended to qualify under sections 401(a) and 401(k) of the Internal Revenue Code and are defined contribution plans. Under the PDI plan, we committed to make mandatory cash contributions to the 401(k) plan to match employee contributions up to a maximum of 2% of each participating employee's annual base wages. In addition we can make discretionary contributions to this plan. Under the InServe plan, which was frozen effective January 1, 2003, we matched on the first 25% of pre-tax contribution, up to 6% of employee compensation. Under the InServe plan, Company matching contributions are always 100% vested. For either plan, there is no option for employees to invest any of their 401(k) funds in our common stock. Our contribution expense related to the 401(k) plans for 2002 was approximately $1.7 million. On January 1, 2003, the InServe plan was frozen, meaning that all previous contributions were kept in the plan, but going forward InServe employees will participate in the PDI plan.

Limitation of directors' liability and indemnification

The Delaware General Corporation Law (DGCL) authorizes corporations to limit or eliminate the personal liability of directors of corporations and their stockholders for monetary damages for breach of directors' fiduciary duty of care. Our certificate of incorporation limits the liability of our directors to the fullest extent permitted by Delaware law.

Our certificate of incorporation provides mandatory indemnification rights to any officer or director who, by reason of the fact that he or she is an officer or director, is involved in a legal proceeding of any nature. These indemnification rights include reimbursement for expenses incurred by an officer or director in advance of the final disposition of a legal proceeding in accordance with the applicable provisions of the DGCL. We have been informed that, in the opinion of the Securities and Exchange Commission, indemnification for liabilities under the Securities Act is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of February 28, 2003 by:

- each person known to us to be the beneficial owner of more than 5% of our outstanding shares;
- each of our directors;
- each executive officer named in the Summary Compensation Table above;
- all of our directors and executive officers as a group.

Except as otherwise indicated, the persons listed below have sole voting and investment power with respect to all shares of common stock owned by them. All information with respect to beneficial ownership has been furnished to us by the respective stockholder. The address for each of Messrs. Dugan and Saldarini is c/o PDI, Inc., 10 Mountainview Road, Upper Saddle River, New Jersey 07458.

<TABLE>
<CAPTION>

Name of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percentage of Shares Beneficially Owned
<S>	<C>	<C>
Executive officers and directors:		
John P. Dugan	4,909,878	34.6%
Charles T. Saldarini	831,245(2)	5.8%
Steven K. Budd	54,910(3)	*
Bernard C. Boyle	45,344(4)	*
Deborah Schnell	18,196(5)	*

Christopher Tama	26,072(6)	*
John M. Pietruski	28,250(7)	*
Jan Martens Vecsi	26,850(7)	*
Gerald J. Mossinghoff	26,250(8)	*
Frank Ryan	3,333(8)	*
Larry Ellberger	3,333(8)	*
John C. Federspiel	9,166(8)	*
All executive officers and directors as a group (17 persons) ...	6,066,870(9)	42.7%
5% stockholders:		
Brown Capital Management, Inc.(10) ..... 1201 N. Calvert Street Baltimore, MD 21202	2,128,875	15.0%
Mellon Financial Corporation(10) ..... One Mellon Center Pittsburgh, PA 15258	1,242,176	8.7%
Boston Safe Deposit and Trust Company(10) ..... One Boston Place, #400 Boston, MA 02018	1,070,575	7.5%
The Boston Company, Asset Management, LLC(10) ..... One Boston Place, 14th Floor Boston, MA 02018	773,600	5.4%

</TABLE>

- ----------

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options and warrants held by that person that are currently exercisable or exercisable within 60 days of February 28, 2003 are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

(2) Includes 31,245 shares issuable pursuant to options exercisable within 60 days of the date of this report.

(3) Includes 47,621 shares issuable pursuant to options exercisable within 60 days of the date of this report.

(4) Includes 39,652 shares issuable pursuant to options exercisable within 60 days of the date of this report.

(5) Includes 14,797 shares issuable pursuant to options exercisable within 60 days of the date of this report.

(6) Includes 23,586 shares issuable pursuant to options exercisable within 60 days of the date of this report.

(7) Includes 26,250 shares issuable pursuant to options exercisable within 60 days of the date of this report.

(8) Represents shares issuable pursuant to options exercisable within 60 days of the date of this report.

(9) Includes 325,052 shares issuable pursuant to options exercisable within 60 days of the date of this report.

(10) This information was derived from the Schedule 13g filed by the reporting person.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In connection with our efforts to recruit sales representatives, we place advertisements in various print publications. These ads are placed on our behalf through Boomer & Son, Inc., which receives commissions from the publications. Prior to 1998, B&S was wholly-owned by John P. Dugan, our chairman of the board. At the end of 1997 Mr. Dugan transferred his interest in B&S to his son, Thomas Dugan, and daughter-in-law, Kathleen Dugan. John P. Dugan is not actively involved in B&S; however, his son, Thomas Dugan, is active in B&S. For the year ended December 31, 2002 we purchased approximately $120,000 of advertising through B&S and B&S received commissions of approximately $14,400. All ads were placed at the stated rates set by the publications in which they appeared. In addition, we believe that the amounts paid to B&S were no less favorable than would be available in an arms-length negotiated transaction with an unaffiliated entity.

Peter Dugan, the son of John P. Dugan, our chairman of the board, is

employed by us as executive director -investor relations. In 2002, compensation paid or accrued to Peter Dugan was $125,860.

ITEM 14. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Within the past 90 days, our management, including our chief executive officer and chief financial officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely fashion.

Changes in Internal Controls

There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date our chief executive officer and chief financial officer completed their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

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

(a) (2) Financial Statement Schedule

Schedule II: Valuation and Qualifying Accounts

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is included elsewhere in the financial statements or notes thereto.

(a) (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.(4)
4.1	Specimen Certificate Representing the Common Stock(1)
10.11	Form of 1998 Stock Option Plan(1)
10.2	Form of 2000 Omnibus Incentive Compensation Plan(2)
10.3	Office Lease for Upper Saddle River, NJ corporate headquarters(1)
10.4	Form of Employment Agreement between the Company and Charles T. Saldarini(4)
10.5	Agreement between the Company and John P. Dugan(1)
10.6	Form of Amended and Restated Employment Agreement between the Company and Steven K. Budd(4)

10.7 Form of Amended and Restated Employment Agreement between the Company and Bernard C. Boyle(4)

10.8 Form of Employment Agreement between the Company and Christopher Tama*

10.9 Form of Amended and Restated Employment Agreement between the Company and Stephen Cotugno(4)

10.10 Form of Employment Agreement between the Company and Lloyd X. Fishman*

10.11 Form of Employment Agreement between the Company and Beth Jacobson*

10.12 Form of Loan Agreements between the Company and Steven Budd(3)

10.13 Exclusive License Agreement between the Company and Cellegy Pharmaceuticals, Inc.*(5)

21.1 Subsidiaries of the Registrant(4)

23.1 Consent of PricewaterhouseCoopers LLP*

99.1 Certification of Chief Executive Officer*

99.2 Certification of Chief Financial Officer*

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* Filed herewith

(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, 1999, and incorporated herein by reference.

(4) Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2001, and incorporated herein by reference.

(5) An application has been submitted to the Securities and Exchange Commission for confidential treatment, pursuant to Rule 24b-2 under the Exchange Act, of certain portions of this exhibit. These portions of the exhibit have been redacted from the exhibit filed with this report.

(b) Reports on Form 8-K

During the three months ended December 31, 2002, the Company filed the following reports on Form 8-K:

<TABLE>
<CAPTION>

Date	Item	Description
<S>	<C>	<C>
November 13, 2002	5	Press Release: PDI Reports 3rd Quarter Financial Results

</TABLE>

SIGNATURES

Pursuant to the requirements of the Securities 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 10th day of March, 2003.

PDI, INC.

/s/ Charles T. Saldarini

Charles T. Saldarini,
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1934, as amended, this Form 10-K has been signed by the following persons in the capacities indicated and on the 10th day of March, 2003.

Signature	Title
/s/ John P. Dugan --- John P. Dugan	Chairman of the Board of Directors
/s/ Charles T. Saldarini --- Charles T. Saldarini	Vice Chairman of the Board of Directors and Chief Executive Officer
/s/ Steven K. Budd --- Steven K. Budd	President and Chief Operating Officer
/s/ Bernard C. Boyle --- Bernard C. Boyle	Chief Financial Officer (principal accounting and financial officer)
/s/ Gerald J. Mossinghoff --- Gerald J. Mossinghoff	Director
/s/ John M. Pietruski --- John M. Pietruski	Director
/s/ Jan Martens Vecsi --- Jan Martens Vecsi	Director
/s/ John C. Federspiel --- John C. Federspiel	Director
/s/ Frank Ryan --- Frank Ryan	Director
/s/ Larry Ellberger --- Larry Ellberger	Director

PDI, INC.

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

CERTIFICATION

I, Charles T. Saldarini, certify that:

1. I have reviewed this annual report on Form 10-K of PDI, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures 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 annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Charles T. Saldarini

Charles T. Saldarini
Vice Chairman and Chief Executive Officer

Date: March 10, 2003

PDI, INC.

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

CERTIFICATION

I, Bernard C. Boyle, certify that:

1. I have reviewed this annual report on Form 10-K of PDI, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures 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 annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Bernard C. Boyle

Bernard C. Boyle
Chief Financial Officer

Date: March 10, 2003

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

Report of Independent Accountants

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

In our opinion, the consolidated financial statements listed in the accompanying index appearing under Item 15(a)(1), present fairly, in all material respects, the financial position of PDI, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2), presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 13, 2003

PDI, INC.
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	December 31,	
	2002	2001
ASSETS	(in thousands)	
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 66,827	$ 160,043
Short-term investments	5,834	7,387
Inventory, net	646	442
Accounts receivable, net of allowance for doubtful accounts of $1,063 and $3,692 as of December 31, 2002 and 2001, respectively	40,729	52,640
Unbilled costs and accrued profits on contracts in progress	3,360	6,898
Deferred training	1,106	5,569
Prepaid income tax	18,856	--
Other current assets	4,804	8,101
Deferred tax asset	7,420	24,041
Total current assets	149,582	265,121
Net property and equipment	18,295	21,044
Deferred tax asset	7,820	--

Other long-term assets	15,242	16,506
Total assets	$ 190,939	$ 302,671
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,374	$ 9,493
Accrued rebates, sales discounts and returns	16,500	68,403
Accrued contract losses	--	12,256
Accrued incentives	11,758	22,213
Accrued salaries and wages	6,617	7,167
Unearned contract revenue	9,473	10,878
Restructuring accruals	4,699	--
Other accrued expenses	13,307	21,026
Total current liabilities	67,728	151,436
Long-term liabilities:		
Deferred tax liability	--	300
Total long-term liabilities	--	300
Total liabilities	$ 67,728	$ 151,736
Stockholders' equity:		
Common stock, $.01 par value; 100,000,000 shares authorized; shares issued and outstanding, 2002 - 14,165,880; 2001 - 13,968,097; restricted $.01 par value; shares issued and outstanding, 2002,- 44,325; 2001 - 15,388	$ 142	$ 140
Preferred stock, $.01 par value; 5,000,000 shares authorized, no shares issued and outstanding	--	--
Additional paid-in capital (includes restricted of $1,547 and $954 in 2002 and 2001, respectively)	106,673	103,711
Retained earnings	17,247	48,008
Accumulated other comprehensive loss	(100)	(79)
Unamortized compensation costs	(641)	(735)
Treasury stock, at cost: 5,000 shares at 2002 and 2001	(110)	(110)
Total stockholders' equity	$ 123,211	$ 150,935
Total liabilities & stockholders' equity	$ 190,939	$ 302,671

</TABLE>

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

PDI, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	For The Years Ended December 31,		
	2002	2001	2000
	(in thousands, except for per share data)		
<S>	<C>	<C>	<C>
Revenue			
Service, net	$ 277,575	$281,269	$315,867
Product, net	6,438	415,314	101,008
Total revenue, net	284,013	696,583	416,875
Cost of goods and services			
Program expenses (including related party amounts of $120, $1,057 and $3,781 for the periods ended December 31, 2002, 2001 and 2000, respectively)	254,140	232,171	235,355

Cost of goods sold	--	328,629	68,997
Total cost of goods and services	254,140	560,800	304,352
Gross profit	29,873	135,783	112,523
Operating expenses			
Compensation expense	32,670	39,263	32,820
Other selling, general and administrative expenses	44,163	83,815	38,827
Restructuring and other related expenses	3,215	--	--
Total operating expenses	80,048	123,078	71,647
Operating (loss) income	(50,175)	12,705	40,876
Other income, net	1,967	2,275	4,864
(Loss) income before (benefit) provision for taxes	(48,208)	14,980	45,740
(Benefit) provision for income taxes	(17,447)	8,626	18,712
Net (loss) income	$ (30,761)	$ 6,354	$ 27,028
Basic net (loss) income per share	$ (2.19)	$ 0.46	$ 2.00
Diluted net (loss) income per share	$ (2.19)	$ 0.45	$ 1.96
Basic weighted average number of shares outstanding	14,033	13,886	13,503
Diluted weighted average number of shares outstanding	14,033	14,113	13,773

</TABLE>

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

PDI, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	For The Years Ended December 31,		
	2002	2001	2000
	(in thousands)		
<S>	<C>	<C>	<C>
Cash Flows From Operating Activities			
Net (loss) income from operations	$ (30,761)	$ 6,354	$ 27,028
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,374	4,676	2,077
Deferred rent and compensation	--	--	11
Loss on disposal of asset	--	858	--
Amortized compensation costs	443	318	--
Deferred taxes, net	8,501	(19,411)	(4,514)
Reserve for inventory obsolescence and bad debt	(2,080)	2,995	353
Loss on other investments	379	1,863	2,500
Other changes in assets and liabilities, net of acquisitions:			
Decrease (increase) in accounts receivable	13,991	31,304	(55,838)
(Increase) decrease in inventory	(203)	35,066	(36,488)
Decrease (increase)in unbilled costs	3,538	(3,703)	(695)
Decrease (increase) in deferred training	4,463	(639)	(3,931)
(Increase) in other current assets	(15,559)	(477)	(2,141)
Decrease (increase) in other long-term assets	4,385	(2,071)	(2,931)
(Decrease) increase in accounts payable	(4,119)	(21,969)	25,294
(Decrease) increase in accrued rebates and sales discounts	(51,903)	44,026	24,368
(Decrease) increase in accrued contract losses	(12,256)	12,256	--
(Decrease) increase in accrued liabilities	(10,398)	6,411	11,567
(Decrease) increase in unearned contract revenue	(1,404)	(12,939)	6,140

(Decrease) increase in other current liabilities	(3,371)	(4,623)	26,394
(Decrease) increase in other deferred compensation	--	(169)	169
(Decrease) in other long-term liabilities	--	--	(256)
Net cash (used in) provided by operating activities	(88,980)	80,126	19,107
Cash Flows From Investing Activities			
Sale of short-term investments	1,532	6,225	1,551
Purchase of short-term investments	--	(8,750)	(4,907)
Investments in Xylos, In2Focus, and iPhysicianNet	(1,379)	(1,103)	(3,260)
Purchase of property and equipment	(4,012)	(15,560)	(7,865)
Cash paid for acquisition, net of cash acquired	(2,735)	(11,902)	--
Net cash used in investing activities	(6,594)	(31,090)	(14,481)
Cash Flows From Financing Activities			
Net proceeds from employee stock purchase plan and the exercise of stock options	2,358	2,117	3,583
Purchase of treasury stock	--	(110)	--
Net proceeds from issuance of common stock	--	--	41,584
Distributions to S corporation stockholders	--	--	(8)
Repayment of loan to stockholder	--	--	1,428
Net cash provided by financing activities	2,358	2,007	46,587
Net (decrease) increase in cash and cash equivalents	(93,216)	51,043	51,213
Cash and cash equivalents - beginning	160,043	109,000	57,787
Cash and cash equivalents - ending	$ 66,827	$ 160,043	$ 109,000
Cash paid for interest	$ 33	$ 59	$ 19
Cash paid for taxes	$ 4,827	$ 18,023	$ 18,552

</TABLE>

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

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

<TABLE>
<CAPTION>

	Common Stock		Treasury Stock		Additional Paid in	Retained	Accumulated Other Comprehensive
	Shares	Amount	Shares	Amount	Capital	Earnings	Income (Loss)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance - December 31, 1999	11,975	$ 120	--	$ --	$ 47,413	$14,634	$ 92
Net income for the year ended December 31, 2000						27,028	
Unrealized investment holding losses, net of tax							(34)
Comprehensive income							
Issuance of common stock	1,609	16			41,568		
Issuance of officers' restricted common stock	8				217		
Exercise of common stock options	253	2			3,581		
Tax benefit of nonqualified option exercise					4,383		
Amortization of deferred compensation expense							
Stockholders' distribution					(8)		
Realized gain on sale of investment holdings							(92)
Deferred compensation costs							
Repayment of loan by officer							

Balance - December 31, 2000	13,845	138	--	--	97,162	41,654	(34)	
Net income for the year ended December 31, 2001						6,354		
Unrealized investment holding losses, net of tax							(56)	
Comprehensive income								
Issuance of common stock	90	1			1,408			
Issuance of officers' restricted common stock	7				737			
Purchase of treasury stock			5	(110)				
Exercise of common stock options	41	1			709			
Tax benefit of nonqualified option exercise					3,695			
Realized loss on sale of investment holdings							11	
Amortization of deferred compensation costs								
Deferred compensation costs								
Balance - December 31, 2001	13,983	$ 140	5	$(110)	$103,711	$48,008	$ (79)	
Net loss for the year ended December 31, 2002						(30,761)		
Unrealized investment holding losses, net of tax							(21)	
Comprehensive income								
Issuance of common stock	190	2			2,239			
Issuance of officers' restricted common stock	29				593			
Exercise of common stock options	8				130			
Amortization of deferred compensation costs								
Deferred compensation costs								
Balance - December 31, 2002	14,210	$ 142	5	$(110)	$106,673	$17,247	$(100)	

<CAPTION>

	Unamortized Deferred Compensation	Loan to Officer	Compensation Costs	Total
<S>	<C>	<C>	<C>	<C>
Balance - December 31, 1999	$ (11)	$(1,428)	$ --	$ 60,820
Net income for the year ended December 31, 2000				27,028
Unrealized investment holding losses, net of tax				(34)
Comprehensive income				26,994
Issuance of common stock				41,584
Issuance of officers' restricted common stock				217
Exercise of common stock options				3,583
Tax benefit of nonqualified option exercise				4,383
Amortization of deferred compensation expense	11			11
Stockholders' distribution				(8)
Realized gain on sale of investment holdings				(92)
Deferred compensation costs			(810)	(810)
Repayment of loan by officer		1,428		1,428
Balance - December 31, 2000	--	--	(810)	138,110
Net income for the year ended December 31, 2001				6,354
Unrealized investment holding losses, net of tax				(56)
Comprehensive income				6,298
Issuance of common stock				1,409
Issuance of officers' restricted common stock				737
Purchase of treasury stock				(110)
Exercise of common stock options				710
Tax benefit of nonqualified option exercise				3,695
Realized loss on sale of investment holdings				11
Amortization of deferred compensation costs			318	318
Deferred compensation costs			(243)	(243)
Balance - December 31, 2001	$ --	$ --	$(735)	$ 150,935
Net loss for the year ended December 31, 2002				(30,761)
Unrealized investment holding losses, net of tax				(21)
Comprehensive income				(30,782)

Issuance of common stock				2,241	
Issuance of officers' restricted common stock				593	
Exercise of common stock options				130	
Amortization of deferred compensation costs				443	443
Deferred compensation costs				(349)	(349)
Balance - December 31, 2002		$ --	$ --	$(641)	$ 123,211

</TABLE>

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

PDI, Inc.
Notes to the Consolidated Financial Statements

1. Nature of Business and Significant Accounting Policies

Nature of Business

PDI, Inc. ("PDI" and, together with its wholly owned subsidiaries, "the Company") is a commercial sales and marketing company serving the biopharmaceutical and medical devices and diagnostics (MD&D) industries. See note 24 for segment information.

Principles of Consolidation

The consolidated financial statements include accounts of PDI and its wholly owned subsidiaries TVG, Inc. (TVG), ProtoCall, Inc. (ProtoCall), InServe Support Solutions, Inc. (InServe) and PDI Investment Company, Inc. (PDII). All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. Significant estimates include accrued contract losses, accrued incentives payable to employees, valuation allowances related to deferred taxes, allowances for doubtful accounts and inventory obsolescence, sales returns and accruals for sales rebates.

Revenue Recognition

Service Revenue

Service revenue is earned primarily by performing product detailing programs and other marketing and promotional services under contracts. Revenue is recognized as the services are performed and the right to receive payment for the services is assured. Revenue is recognized net of any potential penalties until the performance criteria relating to the penalties have been achieved. Bonus and other performance incentives, as well as termination payments, are recognized as revenue in the period earned and when payment of the bonus, incentive or other payment is assured. Under performance based contracts, revenue is recognized when the performance based parameters are achieved.

Product Revenue

The Company recognizes revenue at the time its products are shipped to its customers as, at that time, the risk of loss or physical damage to the product passes to the customer, and the obligations of customers to pay for the products are not dependent on the resale of the product. Provision is made at the time of sale for all discounts and estimated sales allowances. As is common in the Company's industry, customers are permitted to return unused product, after approval from the Company, up to six months before and one year after the expiration date for the product. The products sold by the Company prior to the effective date of the Ceftin Agreement termination of February 28, 2002, have expiration dates through December 2004. Additionally, certain customers are eligible for price rebates or discounts, offered as an incentive to increase

sales volume and achieve favorable formulary status, on the basis of volume of purchases or increases in the product's market share over a specified period, and certain customers are credited with chargebacks on the basis of their resales to end-use customers, such as HMO's, which have contracted with the Company for quantity discounts. Furthermore, the Company is also obligated to issue rebates under the federally administered Medicaid program. In each instance the Company has the historical data and access to other information, including the total demand for the drug the Company distributes, the Company's market share, the recent or pending introduction of new drugs or generic competition, the inventory practices of the Company's customers and the resales by its customers to end-users having contracts with the Company, necessary to reasonably estimate the amount of such returns or allowances, and records reserves for such returns or allowances at the time of sale as a reduction of revenue. The actual payment of these rebates varies depending on the program and can take several calendar quarters before final settlement. As the Company settles these liabilities in future periods all adjustments, positive or negative, will be recorded through revenue in that period. The majority of the product revenue in the consolidated statement of operations in 2002 related to the settlement of certain of these liabilities.

Fair Value of Financial Instruments

The book values of cash and cash equivalents, accounts receivable, accounts payable and other financial instruments approximate their fair values principally because of the short-term maturities of these instruments.

Contract Loss Provisions

Provisions for losses to be incurred on contracts are recognized in full in the period in which it is determined to be probable that a loss will result from performance under the contractual arrangement. See Notes 3 and 4.

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 clients have not been billed. These amounts are classified as a current asset. Normally, in the case of detailing contracts, the clients 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 beginning of a contract. The excess of amounts billed over revenue recognized represents unearned contract revenue, which is classified as a current liability.

Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted cash accounts, highly liquid investment instruments and certificates of deposit with an original maturity of three months or less at the date of purchase.

Investments

The Company accounts for investments under Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Available-for-sale investments are valued at fair market value based on quoted market values, with the resulting adjustments, net of deferred taxes, reported as a separate component of stockholders' equity as accumulated other comprehensive income (loss). For the purposes of determining gross realized gains and losses, the cost of securities sold is based upon specific identification. The Company also has certain other investments which are accounted for under the cost method, which are included in other long-term assets. The Company reviews its equity investments for impairment on an ongoing basis, based on its determination of whether a decline in the fair value of the investments below the Company's carrying value is other than temporary. The Company reviews its equity investments for impairment on an ongoing basis based on its determination of whether a decline in the fair value of the investments

below the Company's carrying value is other than temporary. See Note 8.

Inventory

Inventory is valued at the lower of cost or market value. Cost is determined using the first in, first out costing method. Inventory consists entirely of finished goods and is recorded net of a provision for obsolescence.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method, based on estimated useful lives of five to ten years for furniture and fixtures, two to seven years for office equipment and computer equipment, and seven years for computer software. 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. Purchased computer software is capitalized and amortized over the software's useful life. Internally-developed software is also capitalized and amortized over its useful life in accordance with of the American Institute of Certified Public Accountants' (AICPA) Statement of Position (SOP) 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

Realizability of Carrying Value of Long-Lived Assets

The Company reviews the recoverability of long-lived assets and finite-lived intangible assets when circumstances indicate that the carrying amount of assets may not be recoverable. This evaluation is based on various analyses including cash flow projections. In the event cash flow projections indicate an impairment, the Company would record an impairment based on the fair value of the assets at the date of the impairment. Effective January 1, 2002, the Company accounts for impairments under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Prior to the adoption of this standard, impairments were accounted for using SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" which was superceded by SFAS No. 144. No impairments of long-lived assets were recorded in 2002, 2001, or 2000.

Goodwill

The excess of the purchase price of a business acquired over the fair value of net tangible assets and identifiable intangible assets at the date of the acquisition has been assigned to goodwill. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is no longer amortized but is evaluated for impairment on at least an annual basis.

The Company will evaluate goodwill and other intangible assets at least on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable based on the estimated future cash flows.

Stock-Based Compensation

As of December 31, 2002 the Company has two stock-based employee compensation plans described more fully in Note 21. SFAS No. 123, "Accounting for Stock-Based Compensation" allows companies a choice of measuring employee stock-based compensation expense based on either the fair value method of accounting or the intrinsic value approach under the Accounting Pronouncement Board (APB) Opinion No. 25. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock option-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. Certain employees receive restricted common stock, the amortization of which is reflected in net income.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

<TABLE>
<CAPTION>

	As of December 31,		
	2002	2001	2000
	(in thousands, except per share data)		
<S>	<C>	<C>	<C>
Net (loss) income, as reported	$ (30,761)	$ 6,354	$ 27,028
Add: Stock-based employee compensation expense included in reported net (loss) income, net of related tax effects	283	134	--
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(8,137)	(5,769)	(1,897)
Pro forma net (loss) income	$ (38,615)	$ 719	$ 25,131
(Loss) earnings per share			
Basic--as reported	$ (2.19)	$ 0.46	$ 2.00
Basic--pro forma	$ (2.75)	$ 0.05	$ 1.86
Diluted--as reported	$ (2.19)	$ 0.45	$ 1.96
Diluted--pro forma	$ (2.75)	$ 0.05	$ 1.82

</TABLE>

Compensation cost for the determination of Pro forma net (loss) income - as adjusted and related per share amounts were estimated using the Black Scholes option pricing model, with the following assumptions: (i) risk free interest rate of 4.49%, 5.01% and 5.74% at December 31, 2002, 2001 and 2000, respectively; (ii) expected life of five years for 2002, 2001 and 2000; (iii) expected dividends - $0 for 2002, 2001 and 2000; and (iv) volatility of 100% for 2002, 90% for 2001 and 80% for 2000. The weighted average fair value of options granted during 2002, 2001 and 2000 was $14.92, $43.56 and $51.48, respectively.

Advertising

The Company recognizes advertising costs as incurred. The total amounts charged to advertising expense were approximately $524,000, $547,000 and $421,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Shipping and Handling Costs

The Company records the costs billed to the customer for shipping and handling in net revenue, and records the related costs incurred for shipping and handling in cost of goods sold.

Income Taxes

The Company applies an asset and liability approach to accounting for income taxes. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is recorded if the Company determines that it is more likely than not that a deferred tax asset will not be realized.

License Fees

Costs related to the acquisition or licensing or products that have not yet received regulatory approval to be marketed, and that have no alternative future uses, are expensed as incurred, while costs incurred post-approval are capitalized and amortized over the economic life of the underlying product. See Note 4.

Reclassifications

Certain reclassifications have been made to conform prior periods' information to the current year presentation.

New Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." (Issue 94-3) This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of this statement to have a material effect on its financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure- an amendment of FASB Statement No. 123." (SFAS No. 148). This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement requires that companies having a year-end after December 15, 2002 follow the prescribed format and provide the additional disclosures in their annual reports. The Company has provided the disclosures required by SFAS No. 148 in the financial statements. The Company does not currently intend to change its method for accounting for stock options and does not expect the adoption of this statement to have a material effect on its financial statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 requires a variable interest entity to be consolidated by a company, if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The initial adoption of this accounting pronouncement will not have a material impact on the Company's consolidated financial statements.

2. Ceftin Contract Termination

In October 2000, the Company entered into an agreement with GlaxoSmithKline (GSK) for the exclusive U.S. sales, marketing and distribution rights for Ceftin(R) Tablets and Ceftin(R) for Oral Suspension, two dosage forms of a cephalosporin antibiotic, which agreement was terminated as of February 28, 2002 by mutual agreement of the parties. The agreement had a five-year term but was cancelable by either party without cause on 120 days' notice. From October 2000 through February 2002, the Company marketed and sold Ceftin products,

primarily to wholesale drug distributors, retail chains and managed care providers.

On August 21 2001, the U.S. Court of Appeals overturned a preliminary injunction granted by the New Jersey District Court, which allowed for the entry of a generic competitor to Ceftin immediately upon approval by the FDA. The affected Ceftin patent had previously been scheduled to run through July 2003. As a result of this decision and its impact on future sales, in the third quarter of 2001, PDI recorded a charge to cost of goods sold and a related reserve of $24.0 million representing the anticipated future loss to be incurred by the Company under the Ceftin agreement as of September 30, 2001. The recorded loss was calculated as the excess of estimated costs that PDI was contractually obligated to incur to complete its obligations under the arrangement, over the remaining estimated gross profits to be earned under the contract from selling the inventory. These costs primarily consisted of amounts paid to GSK to reduce purchase commitments, estimated committed sales force expenses, selling and marketing costs through the effective date of the termination, distribution costs, and fees to terminate existing arrangements. The Ceftin agreement was terminated by the Company and GSK under a mutual termination agreement entered into in December 2001. Under the termination agreement, the Company agreed to perform its marketing and distribution services through February 28, 2002. The Company also maintained responsibility for sales returns for product sold until the expiration date of the product sold, estimated to run through December 31, 2004, and certain administrative functions regarding Medicaid rebates.

As of December 31, 2002, the Company had no remaining Ceftin contract loss reserve. At December 31, 2001, the reserve had consisted primarily of the remaining estimated costs required to be incurred to fulfill remaining obligations under the contract termination. While the Company has certain responsibilities as discussed above, it had no remaining Ceftin inventory purchase commitments as of December 31, 2002. The Company also has approximately $16.5 million in sales rebates and return accruals related to Ceftin at December 31, 2002 for estimated settlement of these obligations which were incurred through the contract termination date. A significant portion of the accrual relates to a reserve for returns. As discussed above, certain of the products sold under the Ceftin agreement have expiration dates up to December 31, 2004.

3. Evista Contract and Termination

In October 2001, the Company entered into an agreement with Eli Lilly and Company (Eli Lilly) to copromote Evista(R) in the U.S. Evista is approved in the U.S. for the prevention and treatment of osteoporosis in postmenopausal women. Under the terms of the agreement, the Company provided sales representatives to copromote Evista to physicians in the U.S. The Company's sales representatives supplemented the Eli Lilly sales force promoting Evista. Under this agreement, the Company was entitled to be compensated based on net sales achieved by the product above a predetermined level. The agreement did not provide for the reimbursement of expenses the Company incurred.

The Eli Lilly arrangement was a performance based contract. The Company was required to commit a certain level of spending for promotional and selling activities, including but not limited to sales representatives. The sales force assigned to Evista was at times used to promote other products in addition to Evista, including products covered

by other PDI copromotion arrangements, which partially offset the costs of the sales force. The Company's compensation for Evista was determined based upon a percentage of net factory sales of Evista above contractual baselines. To the extent that such baselines were not exceeded, the Company received no revenue.

Based upon management's assessment of the future performance potential of the Evista brand, on November 11, 2002, the Company and Eli Lilly mutually agreed to terminate the contract as of December 31, 2002. The Company accrued a contract loss of $7.8 million as of September 30, 2002 representing the anticipated future loss expected to be incurred by the Company to fulfill our contractual obligations under the Evista contract. There was no remaining accrual as of December 31, 2002 as the Company had no further obligations due to

the termination of the contract. The Company recorded $4.1 million in Evista program revenue for 2002 and the Evista program operating loss, excluding corporate expense allocations on this contract for the year ended 2002, was $35.1 million.

4. Other Performance Based Contracts

In May 2001, the Company entered into a copromotion agreement with Novartis Pharmaceuticals Corporation (Novartis) for the U.S. sales, marketing and promotion rights for Lotensin(R) and Lotensin HCT(R), which agreement runs through December 31, 2003. On May 20, 2002, the Company expanded this agreement with the addition of Diovan(R) and Diovan HCT(R). Under this agreement, the Company provides promotion, selling, marketing, and brand management for Lotensin. In exchange, the Company is entitled to receive a revenue split based on certain total prescription (TRx) objectives above specified contractual baselines. Also under this agreement with Novartis, the Company copromotes Lotrel(R) and Diovan and Diovan HCT in the U.S. for which it is entitled to be compensated on a fixed fee basis with potential incentive payments based upon achieving certain total prescription TRx objectives. Novartis has retained regulatory responsibilities for Lotensin, Lotrel and Diovan and ownership of all intellectual property. Additionally, Novartis will continue to manufacture and distribute the products. In the event the Company's estimates of the demand for Lotensin are not accurate or more sales and marketing resources than anticipated are required, the Novartis transaction could have a material adverse impact on the Company's results of operations, cash flows and liquidity. Even though there is a small operating loss on the contract for Lotensin excluding corporate expense allocations for the year ending December 31, 2002, the Company's efforts on this contract did result in operating income for the quarters ended September 30, 2002 and December 31, 2002 because the sales of Lotensin exceeded the specified baselines and the revenues earned exceeded the operating costs. While the Company currently estimates that future revenues will continue to exceed costs associated with this agreement, there is no assurance that actual revenues will exceed costs; in which event the activities covered by this agreement could yield an operating loss and a contract loss reserve could be required. In 2003, the Lotrel and Diovan contracts in the Novartis agreement will be classified differently since the nature of the contract has changed from a pure performance based contract where the Company was not assured of recouping its expenses, to a more traditional fee for service contract where the Company has greater certainty of recouping its expenses with the additional potential for incentives at year end based on achieving certain performance criteria.

In October 2002, the Company entered into an agreement with Xylos Corporation (Xylos) for the exclusive U.S. commercialization rights to the Xylos XCell(TM) Cellulose Wound Dressing (XCell) wound care products by entering into an agreement pursuant to which the Company is the exclusive commercialization partner for the sales, marketing and distribution of the product line in the U.S. The minimum annual purchase requirement for the calendar year 2003 is $750,000. The minimum annual purchase requirement for each subsequent calendar year is based on the aggregate dollar volume of sales of products during the 12-month period ending with September of the prior year, but in no case can be less than $750,000.

On December 31, 2002, the Company entered into an exclusive licensing agreement with Cellegy Pharmaceuticals, Inc. (Cellegy) for the North American rights to its testosterone gel product. Cellegy submitted a New Drug Application (NDA) for the hypogonadism indication in June 2002, based on positive results achieved in a Phase III clinical trial. The U.S. Food and Drug Administration (FDA) has accepted the application for review, and FDA approval for the commercialization of the product is pending. The 10-month Prescription Drug User Fee Act (PDUFA) date for the product is April 5, 2003, the first potential approval date for the product, though there is no certainty that it will be approved at that time. Under the terms of the agreement, which is in effect for the commercial life of the product, upon execution of the agreement we paid Cellegy a $15.0 million initial licensing fee. As the nonrefundable payment was made prior to FDA approval and there is no alternative future use, the $15.0 million was expensed by the Company as incurred. The amount has been recorded in other selling, general, and administrative expenses in the consolidated statement of operations. The Company will be required to pay Cellegy an additional $10.0 million after the product has all FDA approvals required to promote, sell and distribute the product in the U.S. This payment will be recorded as an intangible asset and amortized over the estimated commercial life of the product.

Royalty payments to Cellegy over the term of the commercial life of the product will range from 20% to 30% of net sales. The agreement is in effect for the commercial life of the product. As discussed in Note 20, in January 2003, a lawsuit was filed against the Company seeking to enjoin its performance under this agreement.

5. Repurchase Program

On September 21, 2001, the Company announced that its Board of Directors had unanimously authorized management to repurchase up to $7.5 million of its Common Stock. Subject to availability, the transactions may be made from time to time in the open market or directly from stockholders at prevailing market prices that the Company deems appropriate. The repurchase program was implemented to ensure stability of the trading in PDI's common shares in light of the September 11, 2001 terrorist activity. In October 2001, 5,000 shares were repurchased in an open market transaction for a total of $110,000. No further purchases have been made through December 31, 2002.

6. Acquisition

On September 10, 2001, the Company acquired 100% of the capital stock of InServe in a transaction treated as an asset acquisition for tax purposes. InServe is a nationwide supplier of supplemental field-staffing programs for the MD&D industry. The acquisition has been accounted for as a purchase. The net assets of InServe on the date of acquisition were approximately $1.3 million. The Company made payments to InServe shareholders (the Seller) at closing of $8.5 million, net of cash acquired. Additionally, the Company put $3.0 million in escrow related to additional amounts payable during 2002 if certain defined benchmarks were achieved. In April 2002, $1.2 million of the escrow was paid to the Seller and $265,265 was returned to the Company due to non-achievement of a performance benchmark. In September 2002, substantially all of the remaining $1.5 million in escrow was paid to the Seller. In connection with these transactions, the Company recorded $7.8 million in goodwill, which is included in other long-term assets, and the remaining purchase price was allocated to identifiable tangible and intangible assets and liabilities acquired.

The following unaudited pro forma results of operations for the years ended December 31, 2001 and 2000 assume that the Company and InServe had been combined as of the beginning of the periods presented. The pro forma results include estimates and assumptions which management believes are reasonable. However, pro forma results are not necessarily indicative of the results which would have occurred if the acquisition had been consummated as of the dates indicated, nor are they necessarily indicative of future operating results.

	Year ended December 31,	
	2001	2000
	(in thousands, except for per share data) (unaudited)	
Net sales - pro forma	$ 702,958	$ 425,516
Net income - pro forma	$ 6,440	$ 27,556
Pro forma diluted earnings per share	$ 0.46	$ 2.00

7. Short-Term Investments

At December 31, 2002, short-term investments were $5.8 million, including approximately $1.1 million of investments classified as available-for-sale securities. At December 31, 2001, short-term investments were $7.4 million, including approximately $928,000 of investments classified as available-for-sale securities. The unrealized after-tax gain/(loss) on the available-for-sale securities is included as a separate component of stockholders' equity as accumulated other comprehensive income (loss). All other short-term investments

are stated at cost, which approximates fair value.

8. Other Investments

In October 2002, the Company acquired $1.0 million of preferred stock of Xylos. As discussed in Note 4, the Company is the exclusive distributor of the Xylos XCell product line. The Company recorded its investment under the cost method.

Also during 2002, the Company made additional investments totaling approximately $379,000 in the preferred stock of iPhysicianNet, Inc (iPhysicianNet), an equity investment which had previously been written down as iPhysicianNet incurred losses. Since iPhysicianNet has only incurred operating losses to date and the Company's cumulative share of losses would exceed its investment, the Company was required to expense these additional investments as incurred in the year ended December 31, 2002.

During 2001 and 2000, the Company made investments totaling $1.9 million in convertible preferred stock of In2Focus, Inc., (In2Focus) a United Kingdom contract sales company, giving PDI an ownership percentage in In2Focus of approximately 14%. The Company recorded its investment under the cost method. In light of the negative operating cash flows and the uncertainty of achieving positive future results, the Company concluded as of December 31, 2001 that its investment related to In2Focus was other than temporarily impaired and it was written down to zero, the current estimated net realizable value.

9. Inventory

At December 31, 2002, there was approximately $646,000 in finished goods inventory, all of which relates to the Xcell wound care product being marketed and distributed by the Company in accordance with the Xylos agreement discussed in Note 4. For the year ended December 31, 2001, inventory consisted solely of Ceftin inventory relating to the distribution agreement with GSK which was terminated effective February 28, 2002.

10. Historical Basic and Diluted Net Income/(Loss) Per Share

Historical basic and diluted net income/(loss) per share is calculated based on the requirements of SFAS No. 128, "Earnings 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, 2002, 2001 and 2000 is as follows:

<TABLE>
<CAPTION>

	Years Ended December 31,		
	2002	2001	2000
	(in thousands)		
<S>	<C>	<C>	<C>
Basic weighted average number of common shares outstanding	14,033	13,886	13,503
Dilutive effect of stock options	--	227	270
Diluted weighted average number of common shares outstanding	14,033	14,113	13,773

</TABLE>

Outstanding options at December 31, 2002 to purchase 1,514,297 shares of common stock with exercise prices of $5.21 to $98.70 per share were not included in the 2002 computation of historical and pro forma diluted net income per share because to do so would have been antidilutive, as a result of the Company's net loss. Outstanding options at December 31, 2001 to purchase 1,003,162 shares of

common stock with exercise prices of $27.00 to $98.70 were not included in the 2001 computation of historical and pro forma diluted net income per share because to do so would have been antidilutive. There were no antidilutive options at December 31, 2000.

11. Property and Equipment

Property and equipment consisted of the following as of December 31, 2002 and 2001:

<TABLE>
<CAPTION>

	December 31,	
	2002	2001
	(in thousands)	
<S>	<C>	<C>
Furniture and fixtures	$ 3,644	$ 3,667
Office equipment	3,177	3,001
Computer equipment	11,981	10,273
Computer software	13,937	12,348
Leasehold improvements	1,703	1,737
Total property and equipment	34,442	31,026
Less accumulated depreciation and amortization	(16,147)	(9,982)
Property and equipment, net	$ 18,295	$ 21,044

</TABLE>

Depreciation expense was approximately $6.8 million, $4.0 million, and $1.6 million for December 31, 2002, 2001 and 2000, respectively.

12. Operating Leases

The Company leases facilities, automobiles and certain equipment under agreements classified as operating leases which expire at various dates through 2007. Lease expense under these agreements for the years ended December 31, 2002, 2001 and 2000 was approximately $26.1 million, $28.4 million and $16.1 million, respectively, of which $21.2 million in 2002, $24.8 million in 2001 and $14.0 million in 2000 related to automobiles leased for employees for a term of one-year from the date of delivery.

As of December 31, 2002, the aggregate minimum future rental payments required by non-cancelable operating leases with initial or remaining lease terms exceeding one year are as follows:

<TABLE>
<CAPTION>

(in thousands)	2003	2004	2005	2006	2007	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Operating leases						
Minimum lease payments	$ 3,525	$ 2,613	$ 1,137	$136	$ 3	$ 7,414
Less minimum sublease rentals	(101)	(135)	(34)	--	--	(270)
Net minimum lease payments	$ 3,424	$ 2,478	$ 1,103	$136	$ 3	$ 7,144

</TABLE>

13. Significant Customers

Service

During 2002, 2001 and 2000 the Company had several significant customers for which it provided services under specific contractual arrangements. The following sets forth the net service revenue generated by customers who accounted for more than 10% of the Company's net service revenue during each of the periods presented.

Customers	Years Ended December 31, 2002	2001	2000
	(in thousands)		
A	$89,739	$89,522	$90,976
B	88,354	--	--
C	--	60,120	--
D	--	--	67,071
E	--	--	37,038

At December 31, 2002 and 2001, these customers represented 62.0% and 41.3%, respectively, of the aggregate of outstanding service accounts receivable and unbilled services. The loss of any one of the foregoing customers could have a material adverse effect on the Company's financial position, results of operations, and cash flows.

Product

During 2002, product revenue was $6.4 million, of which approximately $716,000 was attributable to sales of Ceftin and $5.7 million was attributable to the changes in estimates related to sales allowances and returns, and discounts and rebates recorded on previous Ceftin sales. Due to the immaterial product sales per customer in 2002, those sales will not be shown in the chart below. During 2001, the Company had several significant customers for which it provided products related to its distribution arrangement with GSK. The following sets forth the product revenue generated by customers who accounted for more than 10% of the Company's product revenue during the years ended December 31, 2001 and 2000.

Customers	Years Ended December 31, 2001	2000
	(in thousands)	
A	$157,541	$30,825
B	122,063	31,733
C	53,392	--

At December 31, 2001 these customers represented 91.1% of aggregated outstanding net product accounts receivable.

14. Related Party Transactions

The Company purchases certain print advertising for initial recruitment of representatives through a company that is wholly-owned by family members of the Company's largest stockholder. The amounts charged to the Company for these purchases totaled approximately $120,000, $1.1 million and $3.8 million for the years ended December 31, 2002, 2001 and 2000.

15. Income Taxes

The (benefit) provision for income taxes for the years ended December 31, 2002, 2001 and 2000 are summarized as follows:

<TABLE>
<CAPTION>

2002	2001	2000

	(in thousands)		
<S>	<C>	<C>	<C>
Current:			
Federal	$ (26,972)	$ 23,346	$ 18,993
State	1,024	4,691	4,233
Total current	(25,948)	28,037	23,226
Deferred	8,501	(19,411)	(4,514)
(Benefit) provision for income taxes	$ (17,447)	$ 8,626	$ 18,712

</TABLE>

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

<TABLE>
<CAPTION>

	2002	2001	2000
<S>	<C>	<C>	<C>
Federal statutory rate	(35.0)%	35.0%	35.0%
State income tax rate, net of Federal benefit	(1.1)	9.8	5.3
Non-deductible acquisition expenses	--	--	(0.4)
Meals and entertainment	0.8	6.7	0.7
Valuation allowance	0.3	4.8	1.9
Other	(1.2)	1.3	(1.6)
Effective tax rate	(36.2)%	57.6%	40.9%

</TABLE>

The tax effects of significant items comprising the Company's deferred tax assets and (liabilities) as of December 31, 2002 and 2001 are as follows:

<TABLE>
<CAPTION>

	2002	2001
<S>	<C>	<C>
Deferred tax assets (liabilities) -- current		
Allowances and reserves	$ 6,378	$ 23,641
Inventory	--	--
Compensation	1,042	400
Other	--	--
	$ 7,420	$ 24,041
Deferred tax assets (liabilities) -- non current		
Property, plant and equipment	$ (1,778)	$ (580)
State net operating loss carryforwards	2,994	--
State taxes	1,178	93
Intangible assets	58	217
Equity investment	1,941	1,808
Other	548	(30)
Contract costs	5,820	--
Valuation allowance on deferred tax assets	(2,941)	(1,808)
	$ 7,820	$ (300)
Net deferred tax asset	$ 15,240	$ 23,741

</TABLE>

At December 31, 2002, the Company had a valuation allowance of $2,941,161 related to certain state net operating loss (NOL) carryforwards. At December 31,

2001, the Company had a valuation allowance of $1,808,046 related to the Company's equity investments. Each of the valuation allowances was recorded because management does not consider it more likely than not that such deferred tax assets will be realized. At December 31, 2002, the Company had approximately $67.9 million of state net operating loss carryforwards, which will begin to expire in 2009.

16. Preferred Stock

The Company's board of directors 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, 2002 and 2001, there were no issued and outstanding shares of preferred stock.

17. Loans to Stockholders/Officers

In November 1998, the Company agreed to lend $250,000 to an executive officer of which $100,000 was funded in November 1998, and the remaining $150,000 was funded in February 1999. This amount was recorded in other long-term assets. Such loan is payable on December 31, 2008 and bears interest at a rate of 5.5% per annum, payable quarterly in arrears. In February 2003, $100,000 of this loan was repaid leaving a balance of $150,000.

18. Retirement Plans

During 2002 and 2001, the Company provided its employees with two qualified profit sharing plan with 401(k) features. Under one plan (the "PDI plan"), the Company expensed contributions of approximately $1.6 million for each of the years ended December 31, 2002 and 2001. Under this plan, the Company is required to make mandatory cash contributions each year equal to 100% of the amount contributed by each employee up to 2% of the employee's wages. Any additional contribution to this plan is at the discretion of the Company. Under the other 401(k) plan (the "InServe plan"), which was frozen effective January 1, 2003, the Company expensed contributions of approximately $51,000 and $23,000 for the years ending December 31, 2002 and 2001, respectively. Under the InServe plan, the Company matched the first 25% of an employee's pretax contribution, up to 6% of employee compensation. Company matching contributions are always immediately 100% vested. Participants in this plan will participate in

PDI's plan effective January 1, 2003. For either plan, there is no option for employees to invest any of their 401(k) funds in the Company's Common Stock.

During 2000, the Company provided its employees with two qualified profit sharing plans with 401(k) features. Under one plan (the "PDI plan"), the Company expensed contributions of approximately $975,000 for the year ended December 31, 2000. Under the other 401(k) plan, which was merged into the PDI plan as amended effective January 1, 2001, the Company expensed contributions of approximately $195,000 for the year ended December 31, 2000. Under this plan the Company matched 100% of the first $1,250 contributed by each employee, 75% of the next $1,250, 50% of the next $1,250 and 25% of the next $1,250 contributed. The Company could also make discretionary contributions under the plan.

19. Deferred Compensation Arrangements

Beginning in 2000, the Company established a deferred compensation arrangement whereby a portion of certain employees' salaries are withheld and placed in a Rabbi Trust. The plan permits the employees to diversify these assets through a variety of investment options. The Company adopted the provisions of Emerging Issues Task Force (EITF) 97-14 "Accounting for Deferred Compensation Arrangement Where Amounts are Earned and Held in a Rabbi Trust and Invested" which requires the Company to consolidate into its financial statements the net assets of the trust. The deferred compensation obligation has been classified as a current liability and is adjusted, with the corresponding charge or credit to compensation expense, to reflect changes in fair value of

the amounts owed to the employee. The assets in the trust are classified as available for sale. The credit to compensation expense due to a decrease of the market value of the investments was approximately $95,000, $30,000, and $59,000 during 2002, 2001 and 2000, respectively. The total value of the Rabbi Trust at December 31, 2002 and 2001 was approximately $1.1 million and $928,000, respectively.

In 2000, the Company established a Long-Term Incentive Compensation Plan whereby certain employees are required to take a portion of their bonus compensation in the form of restricted Common Stock. The restricted shares vest on the third anniversary of the grant date and are subject to accelerated vesting and forfeiture under certain circumstances. The Company recorded deferred compensation costs of approximately $349,000 and $243,000 during 2002 and 2001, respectively, which is being amortized over the three-year vesting period. The unamortized compensation costs have been classified as a separate component of stockholders' equity.

20. Commitments and Contingencies

Due to the nature of the business that the Company is engaged in, such as product detailing and distribution of products, those and other activities could expose the Company to risk. Such activities could expose the Company to risk of liability for personal injury or death to persons using such products. There can be no assurance that substantial claims or liabilities will not arise in the future because of the nature of our business activities. The Company seeks to reduce its potential liability under its service agreements through measures such as contractual indemnification provisions with clients (the scope of which may vary from client to client, and the performances of which are 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 the indemnification agreements; 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.

Securities Litigation

In January and February 2002, the Company, its chief executive officer, and its chief financial officer were served with three complaints that were filed in the United States District Court for the District of New Jersey alleging violations of the Securities Exchange Act of 1934 (the "1934 Act"). These complaints were brought as purported shareholder class actions under Sections 10(b) and 20(a) of the 1934 Act and Rule 10b-5 established thereunder. On May 23, 2002, the Court consolidated all three lawsuits into a single action entitled In re PDI Securities Litigation, Master File No. 02-CV-0211, and appointed lead plaintiffs (Lead Plaintiffs) and Lead Plaintiffs' counsel. On or about December 13, 2002, Lead Plaintiffs filed a second consolidated and amended complaint (Second Consolidated and Amended Complaint), which superseded their earlier complaints.

The complaint names the Company, its chief executive officer, and its chief financial officer as defendants; purports to state claims against the Company on behalf of all persons who purchased the Company's common stock between May 22, 2001 and August 12, 2002; and seeks money damages in unspecified amounts and litigation expenses including attorneys' and experts' fees. The essence of the allegations in the Second Consolidated and Amended Complaint is that the Company intentionally or recklessly made false or misleading public statements and omissions concerning its financial condition and prospects with respect to its marketing of Ceftin in connection with the October 2000 distribution agreement with GSK, its marketing of Lotensin in connection with the May 2001 distribution agreement with Novartis Pharmaceuticals Corp., as well as its marketing of Evista in connection with the October 2001 distribution agreement with Eli Lilly & Co.

In February 2003, the Company filed a motion to dismiss the Second

Consolidated and Amended Complaint under the Private Securities Litigation Reform Act of 1995 and Rules 9(b) and 12(b)(6) of the Federal Rules of Civil Procedure. The Company believes that the allegations in this purported securities class action are without merit and intends to defend the action vigorously.

Bayer-Baycol Litigation

The Company has been named as a defendant in numerous lawsuits, including two class action matters, alleging claims arising from the use of the prescription compound Baycol that was manufactured by Bayer Pharmaceuticals (Bayer) and co-marketed by the Company on Bayer's behalf under a contract sales force agreement. The Company may be named in additional similar lawsuits. In August 2001, Bayer announced that it was voluntarily withdrawing Baycol from the U.S. market. To date, the Company has defended these actions vigorously and has asserted a contractual right of indemnification against Bayer for all costs and expenses the Company incurs relating to these proceedings. 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, subject to certain limited exceptions. Further, Bayer has agreed to reimburse the Company for all reasonable costs and expenses incurred to date in defending these proceedings.

Auxilium Pharmaceuticals Litigation

On January 6, 2003, the Company was named as a defendant in a lawsuit filed by Auxilium Pharmaceuticals, Inc. (Auxilium), in the Pennsylvania Court of Common Pleas, Montgomery County. Auxilium is seeking monetary damages and injunctive relief, including preliminary injunctive relief, based on several claims related to the Company's alleged breach of a contract sales force agreement entered into by the parties on November 20, 2002, and claims that the Company has and currently is misappropriating Auxilium's trade secrets in connection with the Company's exclusive license agreement with Cellegy.

A hearing on Auxilium's preliminary injunction motion was conducted on February 11, 2003 through February 13, 2003, but the court did not reach a decision. Final arguments in the hearing are scheduled for the week of March 17, 2003. The Company intends to continue contesting this case vigorously, and believes the likelihood of any order enjoining it from marketing and selling under its Cellegy license for any significant time is unlikely, as is the likelihood of any material damage award.

The Company is currently a party to other legal proceedings incidental to its business. While management currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on its consolidated financial statements, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the results of operations for the period in which the ruling occurs.

Other than the foregoing, the Company is not currently a party to any material pending litigation and it is not aware of any material threatened litigation.

21. Stock Option Plans

In May 2000 the Board of Directors (the Board) approved the PDI, Inc. 2000 Omnibus Incentive Compensation Plan (the 2000 Plan). The purpose of the 2000 Plan is to provide a flexible framework that will permit the Board to develop and implement a variety of stock-based incentive compensation programs based on the changing needs of the Company, its competitive market, and the regulatory climate. The maximum number of shares

as to which awards or options may at any time be granted under the 2000 Plan is 2.2 million shares. Eligible participants under the 2000 Plan shall include officers and other employees of the Company, members of the Board, and outside consultants, as specified under the 2000 Plan and designated by the Compensation

Committee of the Board. The right to grant Awards under the 2000 Plan will terminate 10 years after the date the 2000 Plan was adopted. No Participant may be granted more than 100,000 options of Company Stock from all Awards under the 2000 Plan.

In March 1998, the Board approved the 1998 Stock Option Plan (the 1998 Plan) which reserves for issuance up to 750,000 shares of its common stock, pursuant to which officers, directors and key employees of the Company and consultants to the Company are eligible to receive incentive and/or non-qualified stock options. The 1998 Plan, which has a term of ten years from the date of its adoption, is administered by a committee designated by the Board. The selection of participants, allotment of shares, determination of price and other conditions relating to the purchase of options is determined by the committee, in its sole discretion. Incentive stock options granted under the 1998 Plan are exercisable for a period of up to 10 years from the date of grant at an exercise price which is not less than the fair market value of the common stock on the date of the grant, except that the term of an incentive stock option granted under the 1998 Plan to a shareholder owning more than 10% of the outstanding common stock may not exceed five years and its exercise price may not be less than 110% of the fair market value of the common stock on the date of the grant.

Options granted to members of the Board vest a third upon date of grant and then ratably over the next two years. All other options granted vest ratably over a three-year period.

At December 31, 2002, options for an aggregate of 1,514,297 shares were outstanding under the Company's stock option plans and options to purchase 333,887 shares of common stock had been exercised since its inception.

The activity for the 2000 and 1998 Plans during the years ended December 31, 2002, 2001 and 2000 is set forth in the table below:

<TABLE>
<CAPTION>

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	1,125,313	$53.60	653,921	$46.60	632,834	$19.15
Granted	596,812	14.81	548,848	71.17	301,560	78.57
Exercised	(6,520)	16.00	(40,733)	17.41	(252,981)	14.16
Terminated	(201,308)	63.06	(36,723)	63.06	(27,492)	22.36
Outstanding at end of year	1,514,297	$39.23	1,125,313	$53.60	653,921	$46.60
Options exercisable at end of year	611,871	$46.04	361,584	$37.11	189,394	$20.52

</TABLE>

The following table summarizes information about stock options outstanding at December 31, 2002:

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Exercise price per share	Number of options outstanding	Remaining weighted contractual life (years)	Weighted exercise price	Number of options exercisable	Weighted exercise price
<S>	<C>	<C>	<C>	<C>	<C>
$ 5.21 - $ 9.15	53,500	9.8	$ 5.98	3,334	$ 9.15
$14.16 - $18.38	596,875	8.6	15.72	112,412	15.88
$20.59 - $29.88	215,924	7.0	27.09	202,259	27.36
$38.20 - $59.50	402,905	8.1	59.32	135,636	59.15
$80.00 - $98.70	245,093	7.9	81.38	158,230	80.89

1,514,297	8.2	$ 39.23	611,871	$ 46.04

</TABLE>

22. Goodwill and Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill is no longer amortized but is evaluated for impairment on at least an annual basis. This resulted in a decrease in amortization expense that would have been recorded in the year ended December 31, 2002 of approximately $1.1 million. The Company has established reporting units for purposes of testing goodwill for impairment. Goodwill has been assigned to the reporting units to which the value of the goodwill relates. The Company completed the first step of the transitional goodwill impairment test and has determined that no impairment existed at January 1, 2002. The Company performed the required annual impairment tests in the fourth quarter of 2002 and determined that no impairment existed at December 31, 2002. These tests involved determining the fair market value of each of the reporting units with which the goodwill was associated and comparing the estimated fair market value of each of the reporting units with its carrying amount. The Company's total goodwill which is not subject to amortization is $11.1 million as of December 31, 2002.

The statements of operations adjusted to exclude amortization expense for 2001 and 2000 related to goodwill and related taxes are as follows:

<TABLE>
<CAPTION>

	For the Year Ended December 31,	
	2001	2000
	(in thousands, except per share data)	
<S>	<C>	<C>
Reported net (loss) income	$ 6,354	$ 27,028
Add goodwill amortization	191	171
Adjusted net (loss) income	$ 6,545	$ 27,199
Basic (loss) earnings per share:		
Reported net (loss) income per share	$ 0.46	$ 2.00
Add: Goodwill amortization	0.01	0.01
Adjusted basic net (loss) income per share	$ 0.47	$ 2.01
Diluted (loss) earnings per share:		
Reported diluted net (loss) income per share	$ 0.45	$ 1.96
Add: Goodwill amortization	0.01	0.01
Adjusted diluted net (loss) income per share	$ 0.46	$ 1.97

</TABLE>

Changes in the carrying amount of goodwill for the years ended December 31, 2002 and 2001, by operating segment, were as follows:

<TABLE>
<CAPTION>

	SMSG	PPG	MD&D	Total
<S>	<C>	<C>	<C>	<C>
Balance as of January 1, 2001	$ 3,634	$ --	$ --	$ 3,634
Amortization	(436)	--	(13)	(449)
Goodwill additions	146	--	5,080	5,226

Balance as of December 31, 2001	$ 3,344	$ --	$ 5,067	$ 8,411
Balance as of January 1, 2002	$ 3,344	$ --	$ 5,067	$ 8,411
Amortization	--	--	--	--
Goodwill additions	--	--	2,721	2,721
Balance as of December 31, 2002	$ 3,344	$ --	$ 7,788	$ 11,132

</TABLE>

All intangible assets recorded as of December 31, 2002 and 2001 are being amortized on a straight-line basis over the life of the intangibles which is primarily 5 years.

<TABLE>
<CAPTION>

	As of December 31, 2002			As of December 31, 2001		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Covenant not to compete	$1,686	$ 442	$1,244	$1,686	$ 105	$1,581
Customer relationships	$1,208	318	$ 890	1,208	76	$1,132
Corporate tradename	$ 172	45	$ 127	172	11	$ 161
Total	$3,066	$ 805	$2,261	$3,066	$ 192	$2,874

</TABLE>

Amortization expense for the years ended December 31, 2002, 2001 and 2000 was approximately $613,000, $688,000 and $470,000, respectively. Amortization expense included amounts related to goodwill during 2001 and 2000 of approximately $450,000 and $419,000, respectively. Estimated amortization expense for the next five years is as follows:

2003	$ 613
2004	613
2005	613
2006	422
2007	-

23. Restructuring and Other Related Expenses

During the third quarter of 2002, the Company adopted a restructuring plan, the objectives of which were to consolidate operations in order to enhance operating efficiencies (the 2002 Restructuring Plan). This plan was primarily in response to the general decrease in demand within the Company's markets for sales and marketing services and the recognition that the infrastructure that supported these business units was larger than required. The majority of the restructuring activities were completed by December 31, 2002, with full completion expected by September 30, 2003.

In connection with this plan, the Company will record total restructuring expenses of approximately $5.4 million, other non-recurring expenses of approximately $0.1 million, and accelerated depreciation of approximately $0.8 million. All but $0.3 million of these expenses were recognized in 2002.

The primary items comprising the restructuring are as follows:

- $3.7 million in severance expense consisting of cash and non-cash termination payments to employees in connection with their involuntary termination. Out of approximately 175 employees affected, 170 have left the Company's employ as of January 15, 2003, and the remaining employees are expected to leave by mid-2003. All of the severance costs were expensed in the fourth quarter of 2002. The Company has recorded the portion of this severance related to the direct sales force of approximately $1.8 million in program expenses in the consolidated statement of operations while the severance costs associated with administrative personnel of approximately $1.9 million have been recorded in the restructuring and other related expenses in the consolidated statement of operations; and

- $1.7 million in restructuring costs consisting primarily of $1.3 million for reserves in connection with the closure or exit of leased space located in Mahwah, NJ, Cincinnati, OH (which was closed effective January 15, 2003), Lawrenceville, NJ, Fort Washington, PA and Novato, CA (which will be effective May 2003). These costs are recorded in restructuring and other related expenses line in the consolidated statement of operations. The remaining $0.4 million in restructuring expenses is related to certain other costs associated with the termination of the sales force that was eliminated in the restructuring and

similar to the severance, such costs have been classified in program expenses in the consolidated statement of operations. Approximately $0.2 million of these expenses will be recognized in 2003.

The other related expenses relate to the write off of fixed assets associated with certain of the Company's facilities being closed or exited as part of the restructuring plan of approximately $0.2 million. The accelerated depreciation expenses of $0.8 million relate to the assets to be disposed of but that were still in service, some through December 31, 2002, and the rest through January 15, 2003. This accelerated depreciation is recorded in selling, general and administrative expenses in the consolidated statement of operations, consistent with its historical classification.

The accrual for restructuring and exit costs, totaled approximately $4.7 million at December 31, 2002, and is recorded in current liabilities on the accompanying balance sheet.

A roll forward of the activity for the 2002 Restructuring Plan (in thousands) is as follows:

<TABLE>
<CAPTION>

	Balance at December 31, 2001	Accruals	Write offs/ Payments	Balance at December 31, 2002
<S>	<C>	<C>	<C>	<C>
Administrative severance	$ --	$ 1,927	$ (257)	$1,670
Exit costs	--	1,288	--	1,288
	$ --	$ 3,215	$ (257)	$2,958
Sales force severance	--	1,741	--	1,741
Asset write offs	--	150	(150)	--
Total	$ --	$ 5,106	$ (407)	$4,699

</TABLE>

24. Segment Information

The Company operates under three reporting segments: sales and marketing services group (SMSG), pharmaceutical products group (PPG) and MD&D, all of which have changed since the December 31, 2001 financial presentation. This change reflects that management now views the performance based contracts in the aggregate and the non performance based contracts in the aggregate. Also, now that the MD&D segment is growing significantly, those contracts that normally would fall under the Company's traditional service offerings or performance based offerings have been carved out and are viewed separately by management as well. Since the termination of the Ceftin contract and the elimination of product sales, effective February 28, 2002, the shift in management's focus on the business has been to view the traditional fee for service type arrangements within the pharmaceutical industry (offered by the SMSG segment) in the aggregate and to view the performance based contracts for pharmaceutical products- those for which the Company is compensated based on the performance of the products that it is responsible for marketing and/or selling (the PPG segment) - also in the aggregate. Lastly, the Company also views all contracts within the MD&D segment for the MD&D industry, whether traditional fee for service, performance based or other in the aggregate for that segment. The sales and marketing services segment includes the Company's contract sales (CSO) business units; and the Company's marketing services business unit, which includes marketing research and medical education and communication services. The pharmaceutical products segment includes the Company's licensing, copromotion and acquisition services, including product sales. The Company's medical devices and diagnostics business unit includes PDI InServe, contract sales, and product licensing and acquisition. The segment information from prior periods has been restated to conform to the current year's presentation.

The accounting policies of the segments are described in note 1. Segment data includes a charge allocating all corporate headquarters costs to each of the operating segments on the basis of total salary costs. Depreciation expense has been allocated to the appropriate segment, but asset and capital expenditures have not since it is impracticable to do so.

<TABLE>
<CAPTION>

	For the Year Ended December 31,		
	2002	2001	2000
<S>	<C>	<C>	<C>
Revenue			
Sales and marketing services group	$ 179,067	$ 348,860	$ 333,260
Pharmaceutical products group	94,976	449,539	102,685
Medical devices and diagnostics	9,970	2,760	--
Total	$ 284,013	$ 801,159	$ 435,945

</TABLE>

<TABLE>
<CAPTION>

	For the Year Ended December 31,		
(continued)	2002	2001	2000
<S>	<C>	<C>	<C>
Revenue			
Revenue, intercompany			
Sales and marketing services group	$ --	$ 98,022	$ 19,070
Pharmaceutical products group	--	6,554	--
Medical devices and diagnostics	--	--	--
Total	$ --	$ 104,576	$ 19,070

Revenue, less intercompany			
Sales and marketing services group	$ 179,067	$ 250,838	$ 314,190
Pharmaceutical products group	94,976	442,985	102,685
Medical devices and diagnostics	9,970	2,760	--
Total	$ 284,013	$ 696,583	$ 416,875
(Loss) income from operations			
Sales and marketing services group	$ 17,247	$ 32,481	$ 50,822
Pharmaceutical products group	(48,821)	(2,834)	3,880
Medical devices and diagnostics	(2,068)	(39)	--
Corporate charges	(16,533)	(16,903)	(13,826)
Total	$ (50,175)	$ 12,705	$ 40,876
Income from operations, intercompany			
Sales and marketing services group	$ --	$ 4,284	$ 4,660
Pharmaceutical products group	--	(4,284)	(4,660)
Medical devices and diagnostics	--	--	--
Corporate charges	--	--	--
Total	$ --	$ --	$ --
(Loss) income from operations, less intercompany, before corporate allocations			
Sales and marketing services group	$ 17,247	$ 28,197	$ 46,162
Pharmaceutical products group	(48,821)	1,450	8,540
Medical devices and diagnostics	(2,068)	(39)	--
Corporate charges	(16,533)	(16,903)	(13,826)
Total	$ (50,175)	$ 12,705	$ 40,876
Corporate allocations			
Sales and marketing services group	$ (9,339)	$ (11,721)	$ (13,131)
Pharmaceutical products group	(6,389)	(4,986)	(695)
Medical devices and diagnostics	(805)	(196)	--
Corporate charges	16,533	16,903	13,826
Total	$ --	$ --	$ --
(Loss) income from operations, less corporate allocations			
Sales and marketing services group	$ 7,908	$ 16,476	$ 33,031
Pharmaceutical products group	(55,210)	(3,536)	7,845
Medical devices and diagnostics	(2,873)	(235)	--
Corporate charges	--	--	--
Total	$ (50,175)	$ 12,705	$ 40,876

</TABLE>

<TABLE>
<CAPTION>

(continued)	For the Year Ended December 31, 2002	2001	2000
<S>	<C>	<C>	<C>
Reconciliation of (loss) income from operations to (loss) income before provision for income taxes			
Total (loss) income from operations for operating groups	$ (50,175)	$ 12,705	$ 40,876

Other income, net	1,967	2,275	4,864
(Loss) income before provision for income taxes	$ (48,208)	$ 14,980	$ 45,740
Capital expenditures			
Sales and marketing services group	$ 3,735	$ 14,277	$ 7,836
Pharmaceutical products group	217	1,213	29
Medical devices and diagnostics	60	70	--
Total	$ 4,012	$ 15,560	$ 7,865
Total Assets			
Sales and marketing services group	$ 114,742	$ 116,898	$ 143,970
Pharmaceutical products group	60,417	175,933	126,255
Medical devices and diagnostics	15,780	9,840	--
Total	$ 190,939	$ 302,671	$ 270,225
Depreciation expense			
Sales and marketing services group	$ 4,318	$ 2,760	$ 1,548
Pharmaceutical products group	2,277	1,199	60
Medical devices and diagnostics	165	29	--
Total	$ 6,760	$ 3,988	$ 1,608

</TABLE>

Schedule II

PDI, INC.

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002

<TABLE>
<CAPTION>

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO OPERATIONS	(1) DEDUCTIONS OTHER	BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	
Against trade receivables --				
Year ended December 31, 2000				
Allowance for doubtful accounts	$ --	$ 250,000	$ --	$ 250,000
Year ended December 31, 2001				
Allowance for doubtful accounts	250,000	8,590,676	(5,148,629)	3,692,047
Year ended December 31, 2002				
Allowance for doubtful accounts	$3,692,047	$ 366,125	$(2,994,695)	$1,063,477
Against taxes --				
Year ended December 31, 2000				
Tax valuation allowance	$ --	$ 989,000	$ --	$ 989,000
Year ended December 31, 2001				
Tax valuation allowance	989,000	819,046	--	1,808,046
Year ended December 31, 2002				
Tax valuation allowance	$1,808,046	$1,133,115	$ --	$2,941,161

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(1) Includes both actual write offs as well as changes in estimates in the reserves.

EXHIBIT 10.8

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made as of the 4th day of February, 2003, by and among PDI, INC., a Delaware corporation (the "Company"), having its principal place of business at 10 Mountainview Road, Upper Saddle River, New Jersey 07458, on the one hand, and CHRISTOPHER TAMA, residing at 223 Conshohocken State Road, Gladwyne, Pennsylvania 19035 (the "Executive"), on the other.

W I T N E S S E T H
- - - - - - - - - -

WHEREAS, the Company believes that it would benefit from the application of the Executive's particular and unique skills, experiences and background in connection with the management and operation of the Company, and wishes to employ the Executive as Executive Vice President; and

WHEREAS, the parties desire by this Agreement to set forth the terms and conditions of the employment relationship between the Company and the Executive.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants in this Agreement, the Company and the Executive agree as follows:

1. Employment and Duties. The Company hereby employs the Executive as Executive Vice President on the terms and conditions provided in this Agreement and Executive agrees to accept such employment subject to the terms and conditions of this Agreement. The Executive shall be responsible for management of the day-to-day affairs of the Company's PDI's Products Group division, shall perform the duties and responsibilities as are customary for the officer of a corporation in such positions, and shall perform such other duties and responsibilities as are reasonably determined from time to time by the Chief Executive Officer and the Chief Operating Officer of the Company. The Executive shall report to and be supervised by the Company's Chief Executive Officer and the Chief Operating Officer. The Executive shall be based at the Company's offices in Upper Saddle River, New Jersey, or such other place that shall constitute the Company's headquarters. The Executive agrees to devote substantially all his attention and time during normal business hours to the business and affairs of the Company and to use his reasonable best efforts to perform faithfully and efficiently the duties and responsibilities of his positions and to accomplish

the goals and objectives of the Company as may be established from time to time by the Company's Board of Directors (the "Board"). Notwithstanding the foregoing, the Executive may engage in the following activities (and shall be entitled to retain all economic benefits thereof including fees paid in connection therewith) as long as they do not interfere in any material respect with the performance of the Executive's duties and responsibilities hereunder and, with respect to subsections (i) and (ii) below, that such activity is pre-approved by the Company's Chief Executive Officer or the Chief Operating Officer: (i) serve on corporate, civic, religious, educational and/or charitable boards or committees, provided that the Executive shall not serve on any board or committee of any corporation or other business which competes with the Business (as defined in Section 10(a) below); (ii) deliver lectures, fulfill speaking engagements or teach on a part-time basis at educational institutions; and (iii) make investments in businesses or enterprises and manage his personal investments; provided that with respect to such activities Executive shall comply with any business conduct and ethics policy applicable to employees of the Company.

2. Term. The term of this Agreement shall commence on February 4, 2003 (the "Commencement Date"), and shall terminate on February 4, 2006, unless extended or earlier terminated in accordance with the terms of this Agreement (the "Termination Date"). Such term of employment is herein sometimes referred to as the "Employment Term". The Employment Term shall be extended for successive one year periods unless either party notifies the other in writing at least 90 days before the Termination Date, or any anniversary of the Termination Date, as the case may be, that she or it chooses not to extend the Employment Term.

3. Compensation. As compensation for performing the services required by this Agreement, and during the term of this Agreement, the Executive shall be compensated as follows:

(a) Base Compensation. The Company shall pay to the Executive an annual salary ("Base Compensation") of $206,000, payable in equal installments pursuant to the Company's customary payroll procedures in effect for its executive personnel at the time of payment, but in no event less frequently than monthly, subject to withholding for applicable federal, state, and local income and employment related taxes. The Executive may be entitled to such increases in Base Compensation with respect to each calendar year during the term of this Agreement, as shall be determined by the Company's Compensation Committee (the "Committee"), in its sole and absolute discretion, based on an annual review of the Executive's performance.

(b) Incentive Compensation. In addition to Base Compensation, the Executive may be entitled to receive additional compensation ("Incentive Compensation") in the discretion of the Committee. The Incentive Compensation shall be pursuant to short-term and/or long-term incentive compensation programs which currently exist or may be established by the Company. For purposes of this Agreement, the Executive's "Pro Rata Share" of Incentive Compensation for any calendar of the Company shall be a fraction whose numerator shall be equal to the number of months (or parts of months) during which the Executive was actually employed by the Company during any such calendar year and whose denominator shall be the total number of months in such calendar year.

4. Employee Benefits. During the Employment Term and subject to the limitations set forth in this Section 4, the Executive and his eligible dependents shall have the right to participate in any retirement plans (qualified and non-qualified), pension, insurance, health, disability or other benefit plan or program that has been or is hereafter adopted by the Company (or in which the Company participates), according to the terms of such plan or program, on terms no less favorable than the most favorable terms granted to senior executives of the Company.

5. Vacation and Leaves of Absence. The Executive shall be entitled to the normal and customary amount of paid vacation provided to senior executive officers of the Company, but in no event less than 20 days during each 12 month period, beginning on the Commencement Date of this Agreement. Any vacation days that are not taken in a given 12 month period shall not accrue or carry-over from year to year. Upon any termination of this Agreement for any reason whatsoever, accrued and unused vacation for the year in which this Agreement terminates will be paid to the Executive within 10 days of such termination based on his annual rate of Base Compensation in effect on the date of such termination. In addition, the Executive may be granted leaves of absence with or without pay for such valid and legitimate reasons as the Company in its sole and absolute discretion may determine, and the Executive shall be entitled to the same sick leave and holidays provided to other senior executives of the Company.

6. Expenses.

(a) Business Expenses. The Executive shall be promptly reimbursed against presentation of vouchers or receipts for all reasonable and necessary expenses incurred by him in connection with the performance of his duties hereunder.

(b) Automobile Expense. During the Employment Term, in order to facilitate the performance of the Executive's duties hereunder, and otherwise for the convenience of the Company, the Company (a) (i) shall reimburse the Executive for the cost of leasing an automobile consistent with the Executive Vice President car benefit described in the Company's Car Benefit Program as of December 2002 or (ii) shall pay the Executive $850 per month and (b) shall pay or reimburse Executive (upon presentation of vouchers or receipts) for the reasonable cost of all maintenance, insurance, repairs, and other reasonable expenses related to such automobile. Employee hereby agrees that a new lease for an automobile will not be executed until Employee's existing lease term has expired.

7. Indemnification.

(a) General. The Company agrees that if the Executive is made a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that she is or was a director or officer of the Company, is or was serving at the request of the Company as a director, officer, member, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including, without limitation, service with respect to employee benefit plans, whether or not the basis of such Proceeding is alleged action in an official capacity as a director, officer, member, employee or agent while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Company to the fullest extent authorized by applicable law (in accordance with the certificate of incorporation and/or bylaws of the Company), as the same exists or may hereafter be amended, against all Expenses (as defined below) incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even if the Executive has ceased to be an officer, director or agent, or is no longer employed by the Company and shall inure to the benefit of his heirs, executors and administrators.

(b) Expenses. As used in this Agreement, the term "Expenses" shall include, without limitation, damages, losses, judgments, liabilities, fines, penalties, excise taxes, settlements and costs, attorneys' fees, accountants' fees, and disbursements and costs of attachment or similar bonds, investigations, and any expenses of establishing a right to indemnification under this Agreement.

(c) Enforcement. If a claim or request under this Agreement is not paid by the Company, or on their behalf, within fifteen days after a written claim or request has been received by the Company, the Executive may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim or request and if successful in whole or in part, the Executive shall be entitled to be paid also the expenses of prosecuting such suit. The burden of proving that the Executive is not entitled to indemnification for any reason shall be upon the Company.

(d) Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Executive.

(e) Partial Indemnification. If the Executive is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any Expenses, but not, however, for the total amount thereof, the Company shall nevertheless indemnify the Executive for the portion of such Expenses to which the Executive is entitled.

(f) Advances of Expenses. Expenses incurred by the Executive in connection with any Proceeding shall be paid by the Company in advance upon request of the Executive that the Company pay such Expenses.

(g) Notice of Claim. The Executive shall give to the Company notice of any claim made against him for which indemnity will or could be sought under this Agreement. In addition, the Executive shall give the Company such information and cooperation as it may reasonably require and as shall be within the Executive's power and at such times and places as are convenient for the Executive.

(h) Defense of Claim. With respect to any Proceeding as to which the Executive notifies the Company of the commencement thereof: (i) the Company will be entitled to participate therein at its own expense; and (ii) except as otherwise provided below, to the extent that it may wish, the Company jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to the Executive. The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which the Executive shall have reasonably concluded that there may be a conflict of interest between the Company and the Executive in the conduct of the defense of such action.

The Company shall not be liable to indemnify the Executive under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Company shall not settle any action or claim in any manner which would impose any penalty or limitation on the Executive without Executive's written consent. Neither the Company nor the Executive shall unreasonably withhold or delay their consent to any proposed settlement.

(i) Non-exclusivity. The right to indemnification and the payment of expenses incurred in defending a Proceeding in advance of its final disposition conferred in this Section 7 shall not be exclusive of any other right which the Executive may have or hereafter may acquire under any statute, provision of the certificate of incorporation or by-laws of the Company, agreement, vote of stockholders or disinterested directors or otherwise.

(j) Directors and Officers Liability Policy. The Company agrees to use reasonable efforts to maintain directors and officers liability insurance covering the Executive in a reasonable and adequate amount determined by the Company.

8. Termination and Termination Benefits.

(a) Termination by the Company.

(i) For Cause. Notwithstanding any provision contained herein, the Company may terminate this Agreement at any time during the Employment Term for "Cause". For purposes of this subsection 8(a)(i), "Cause" shall mean (1) the continuing failure by the Executive to perform his duties hereunder for any reason other than total or partial incapacity due to physical or mental illness, or (2) gross negligence or gross malfeasance on the part of the Executive in the performance of his duties hereunder that causes material harm to the Company. Termination pursuant to this subsection 8(a)(i) shall be effective immediately upon giving the Executive written notice thereof stating the reason or reasons therefor with respect to clause (2) above, and 15 days after written notice thereof from the Company to the Executive specifying the acts or omissions constituting the failure and requesting that they be remedied with respect to clause (1) above, but only if the Executive has not cured such failure within such 15 day period. In the event of a termination pursuant to this subsection 8(a)(i), the Executive shall be entitled to payment of his Base Compensation and the benefits pursuant to Section 4 hereof up to the effective date of such termination and it is also the intention and agreement of the Company that Executive shall not be deprived by reason of termination for Cause of any payments, options or benefits which have been

vested or have been earned or to which Executive is entitled as of the effective date of such termination.

(ii) Disability. If due to illness, physical or mental disability, or other incapacity, the Executive shall fail, for a total of any six consecutive months ("Disability"), to substantially perform the principal duties required by this Agreement, the Company may terminate this Agreement upon 30 days' written notice to the Executive. In such event, the Executive shall be (1) paid his Base Compensation until the Termination Date and his Pro Rata Share of any Incentive Compensation to which she would have been entitled for the year in which such termination occurs, and (2) provided with employee benefits pursuant to Section 4, to the extent available, for the remainder of the Employment Term; provided, however, that any compensation to be paid to the Executive pursuant to this subsection 8(a)(ii) shall be offset against any payments received by the Executive pursuant to any policy of disability insurance the premiums of which are paid for by the Company.

(b) Termination Without Cause or Termination For Good Reason. The Company may terminate the Executive's employment hereunder without Cause and the Executive may terminate his employment hereunder for "Good Reason" (as defined below). If the Company terminates the Executive's employment hereunder without Cause, other than due to death or Disability, or if the Executive terminates his employment for Good Reason, the Executive shall be paid: (i) his Base

Compensation at the rate in effect at the time of termination through the Termination Date; (ii) his Pro Rata Share of any Incentive Compensation to which she would have been entitled for the year in which such termination occurs; (iii) a lump sum payment equal to the product of thirty-six (36) times the "Monthly Salary Amount"; (iv) any vested deferred compensation (including, without limitation, interest or other credits on the deferred amounts) and any accrued vacation pay; (v) continuation, until the expiration of the Employment Term and for twelve months thereafter, of the health and welfare benefits of the Executive and any long-term disability insurance generally provided to senior executives of the Company (as provided for by Section 4 of this Agreement) (or the Company shall provide the economic equivalent thereof); provided, however, if the Executive obtains new employment and such employment makes the Executive eligible for health and welfare or long-term disability benefits which are equal to or greater in scope then the benefits then being offered by the Company, then the Company shall no longer be required to

provide such benefits to the Executive; and (vi) any other compensation and benefits as may be provided in accordance with the terms and provisions of any applicable plans or programs of the Company.

As used herein, "Monthly Salary Amount" shall mean an amount equal to one-twelfth of the sum of (y) the Executive's then current annual Base Salary plus (z) the average cash incentive compensation paid to the Executive during the three years immediately preceding the termination date.

As used herein, "Good Reason" means and shall be deemed to exist if, without the prior express written consent of the Executive, (a) the Company breaches this Agreement in any material respect; (b) the Company fails to obtain the full assumption of this Agreement by a successor; (c) the Company fails to use its reasonable best efforts to maintain, or cause to be maintained directors and officers liability insurance coverage for the Executive; (d) the Company purports to terminate the Executive's employment for Cause and such purported termination of employment is not effected in accordance with the requirements of this Agreement, or (e) of within two years following the occurrence of a Change in Control (i) the Executive suffers an adverse change in his status, title, position or responsibilities, (ii) the Executive suffers a reduction in his base salary, (iii) the Executive suffers an adverse change in his working conditions, or (iv) the Company breaches any material provision of this Agreement; provided, however, that with respect to items (a) through (d) above, within 30 days of written notice of termination by the Executive, the Company has not cured, or commenced to cure, such failure or breach.

For purposes of this Agreement, a "Change of Control" shall mean (1) 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 55% of the surviving Corporation; (2) 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; (3) the acquisition of beneficial ownership, directly or indirectly, 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) and 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 of the Company, as then constituted; or (4) the acquisition of beneficial ownership, directly or indirectly, of voting securities and rights to acquire voting securities having voting power equal to 25% 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 unless such acquisition as is described in this part (4) is expressly approved by resolution of the Board of the Company passed upon affirmative vote of not less than a majority of the Board and adopted at a meeting of the Board held not later than

the date of the next regularly scheduled or special meeting held following the date the Company obtains actual knowledge of such acquisition (which approval may be limited in purpose and effect solely to affecting the rights of Employee under this Agreement). Notwithstanding the preceding sentence, (i) 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 Internal Revenue Code of 1986, as amended, or a transaction of similar effect, shall not constitute a Change in Control.

(c) Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided or maintained by the Company and for which the Executive may qualify, nor shall anything herein limit or otherwise prejudice such rights as the Executive may have under any other existing or future agreements with the Company. Except as otherwise expressly provided for in this Agreement, amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plans or programs of the Company at or subsequent to the date of termination shall be payable in accordance with such plans or programs.

(d) Vesting of Stock Grants and Stock Options. In the event of any termination of this Agreement, Executive's rights with regard to any stock grants, loan agreements or stock options shall be as set forth in the respective agreement containing the terms and conditions pertaining thereto. Notwithstanding the foregoing, in the event that the Executive is terminated for reasons other than for "Cause" or in the event the Executive terminates this Agreement for "Good Reason", any stock options then held by the Executive shall immediately vest in the Executive;

provided, however, all stock options then held by the Executive shall expire and/or terminate 90 days after the date this Agreement is terminated.

(e) Certain Additional Payments by the Company. Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (an "Excise Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax imposed upon the Excise Gross-Up Payment and any ordinary income tax on the Excise Gross-Up Payment, in order to put the Executive in the same net after-tax position as if the payment were not subject to any Excise Tax. Subject to the provisions of this Section 8(e), all determinations required to be made hereunder, including whether an Excise Gross-Up Payment is required and the amount of such Excise Gross-Up Payment, shall be made by PricewaterhouseCoopers LLP or such other accounting firm which at the time audits the financial statements of the Company (the "Accounting Firm") at the sole expense of the Company, which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the date of termination of the Executive's employment under this Agreement, if applicable, or such earlier time as is requested by the Company.

If the Accounting Firm determines that no Excise Tax is payable by the Executive, the Company shall use its reasonable best efforts to cause the Accounting Firm to furnish the Executive with an opinion that she has substantial authority not to report any Excise Tax on his federal income tax return. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Excise Gross-Up Payments, which will not have been made by the Company, should have been made (an "Underpayment") consistent with the calculations required to be made hereunder. If the Company exhausts its remedies pursuant hereto and the Executive thereafter is required to make a payment of

any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Excise Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive knows of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall: (i) give the Company any information reasonably requested by the Company relating to such claim; (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including (without limitation) accepting legal representation with respect to such claim by an attorney reasonably selected by the Company; (iii) cooperate with the Company in good faith to contest effectively such claim; and (iv) permit the Company to participate in any proceedings relating to such claim; provided that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions hereof the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify

and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance, and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which an Excise Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

If, after the receipt by the Executive of an amount advanced by the Company pursuant hereto, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant hereto, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Excise Gross-Up Payment required to be paid.

(f) Death Benefit. Notwithstanding any other provision of this

Agreement, this Agreement shall terminate on the date of the Executive's death. In such event the Company shall pay Executive's Base Compensation to his wife, if she survives him, or, if she does not survive him, to his estate, through the termination date. In addition, the Company shall pay to Executive's wife, if she survives him, or, if she does not survive him, to his estate, the Pro Rata Share of any Incentive Compensation to which Executive would have been entitled for the year in which such death occurs.

(g) Payment. Except as otherwise provided in this Agreement, any payments to which the Executive shall be entitled under this Section 8, including, without limitation, any economic equivalent of any benefit, shall be made as promptly as possible following the date of termination. If the amount of any payment due to the Executive cannot be finally determined within

90 days after the Date of Termination, such amount shall be estimated on a good faith basis by the Company and the estimated amount shall be paid no later than 90 days after such Date of Termination. As soon as practicable hereafter, the final determination of the amount due shall be made and any adjustment requiring a payment to or from the Executive shall be made as promptly as practicable.

(h) No Mitigation. The Executive shall not be required to mitigate the amount of any payments provided for by this Agreement by seeking employment or otherwise, nor shall the amount of any payment or benefit provided in this Agreement be reduced by any compensation or benefit earned by the Executive after termination of his employment.

9. Company Property. All advertising, promotional, sales, suppliers, manufacturers and other materials or articles or information, including without limitation data processing reports, customer lists, customer sales analyses, invoices, product lists, price lists or information, samples, or any other materials or data of any kind furnished to the Executive by the Company or developed by the Executive on behalf of the Company or at the Company's direction or for the Company's use or otherwise in connection with the Executive's employment hereunder, are and shall remain the sole and confidential property of the Company; if the Company requests the return of such materials at any time during or at or after the termination of the Executive's employment, the Executive shall immediately deliver the same to the Company.

10. Covenant Not To Compete.

(a) Covenants Against Competition. The Executive acknowledges that as of the execution of this Employment Agreement (i) the Company is engaged in the business of providing sales and marketing and marketing research services to the pharmaceutical, medical device and diagnostics and biotechnology industries and in the sale of pharmaceutical, medical device and diagnostics and biotechnology products (the "Business"); (ii) the Company's Business is conducted currently throughout the United States and may be expanded to other locations; (iii) his employment with the Company will have given him access to confidential information concerning the Company; and (iv) the agreements and covenants contained in this Agreement are essential to protect the business and goodwill of the Company. Accordingly, the Executive covenants and agrees as follows:

(i) Non-Compete. Without the prior written consent of the Board of the Company, the Executive shall not during the Restricted Period (as defined below) within the

Restricted Area (as defined below) (except in the Executive's capacity as an officer of the Company or any of its affiliates), (a) engage or participate in the Business; (b) enter the employ of, or render any services (whether or not for a fee or other compensation) to, any person engaged in the Business; or (c) acquire an equity interest in any such person; provided, however, that such restriction shall not apply to any Businesses which do not have products which compete with the Company's products at the time that such Employee engages, participates, enters the employ of, or renders service to any person engaged in the Businesses during the Restricted Period or with products that the Company at the time of such Termination is in the process of negotiating to market, license

and/or acquire.The foregoing restrictions shall not apply at any time if the Executive's employment is terminated during the Term by the Executive for Good Reason (as defined in Section 8(b) below) or by the Company other than for "Cause"; provided, further, that during the Restricted Period the Executive may own, directly or indirectly, solely as a passive investment, securities of any company traded on any national securities exchange or on the National Association of Securities Dealers Automated Quotation System.

As used herein, "Restricted Period" shall mean the period commencing on the Commencement Date and ending on the second anniversary of the Executive's termination of employment.

"Restricted Area" shall mean any place within the United States and any other country in which the Company is then actively considering conducting Business.

(b) Confidential Information; Personal Relationships. The Executive acknowledges that the Company has a legitimate and continuing proprietary interest in the protection of its confidential information and has invested substantial sums and will continue to invest substantial sums to develop, maintain and protect confidential information. The Executive agrees that, during and after the Restricted Period, without the prior written consent of the Board, the Executive shall keep secret and retain in strictest confidence, and shall not knowingly use for the benefit of himself or others all confidential matters relating to the Company's Business including, without limitation, operational methods, marketing or development plans or strategies, business acquisition plans, joint venture proposals or plans, and new personnel acquisition plans, learned by the Executive heretofore or hereafter (such information shall be referred to herein collectively as "Confidential Information"); provided, that nothing in this Agreement shall prohibit the Executive

from disclosing or using any Confidential Information (A) in the performance of his duties hereunder, (B) as required by applicable law, (C) in connection with the enforcement of his rights under this Agreement or any other agreement with the Company, or (D) in connection with the defense or settlement of any claim, suit or action brought or threatened against the Executive by or in the right of the Company. Notwithstanding any provision contained herein to the contrary, the term Confidential Information shall not be deemed to include any general knowledge, skills or experience acquired by the Executive or any knowledge or information known or available to the public in general. Moreover, the Executive shall be permitted to retain copies of, or have access to, all such Confidential Information relating to any disagreement, dispute or litigation (pending or threatened) involving the Executive.

(c) Employees of the Company and its Affiliates. During the Restricted Period, without the prior written consent of the Board of the Company, the Executive shall not, directly or indirectly, hire or solicit, or cause others to hire or solicit, for employment by any person other than the Company or any affiliate or successor thereof, any employee of, or person employed within the two years preceding the Executive's hiring or solicitation of such person by, the Company and its affiliates or successors or encourage any such employee to leave his employment. For this purpose, any person whose employment has been terminated involuntarily by the Company shall be excluded from those persons protected by this Section for the benefit of the Company.

(d) Business Relationships. During the Restricted Period, the Executive shall not, directly or indirectly, request or advise a person that has a business relationship with the Company to curtail or cancel such person's business relationship with the Company.

(e) Rights and Remedies Upon Breach. If the Executive breaches, threatens to commit a breach of, any of the provisions contained in Section 10 of this Agreement (the "Restrictive Covenants"), the Company shall have the following rights and remedies, each of which rights and remedies shall be independent of the others and severally enforceable, and each of which is in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity.

(i) Specific Performance. The right and remedy to have the Restrictive Covenants specifically enforced by any court of competent

jurisdiction, it being agreed that any

breach or threatened breach of the Restrictive Covenants would cause irreparable injury to the Company and that money damages would not provide an adequate remedy to the Company.

(ii) Accounting. The right and remedy to require the Executive to account for and pay over to the Company all compensation, profits, monies, accruals, increments or other benefits derived or received by the Executive as the result of any action constituting a breach of Restrictive Covenants.

(f) Severability of Covenants. The Executive acknowledges and agrees that the Restrictive Covenants are reasonable and valid in duration and geographical scope and in all other respects. If any court determines that any of the Restrictive Covenants, or any part thereof, is invalid or unenforceable, the remainder of the Restrictive Covenants shall not thereby be affected and shall be given full effect without regard to the invalid portions. The provisions set forth in Section 10 above shall be in addition to any other provisions of the business conduct and ethics policy applicable to employees of the Company and its subsidiaries during the term of Executive's employment.

(g) Saving Clause. If the period of time or the area specified in subsection (a) above should be adjudged unreasonable in any proceeding, then the period of time shall be reduced by such number of months or the area shall be reduced by the elimination of such portion thereof or both so that such restrictions may be enforced in such area and for such time as is adjudged to be reasonable. If the Executive violates any of the restrictions contained in the foregoing subsection (a), the restrictive period shall not run in favor of the Executive from the time of the commencement of any such violation until such time as such violation shall be cured by the Executive to the satisfaction of Company.

11. Executive's Representation and Warranties. Executive represents and warrants that she has the full right and authority to enter into this Agreement and fully perform his obligations hereunder, that she is not subject to any non-competition agreement other than with the Company, and that his past, present and anticipated future activities have not and will not infringe on the proprietary rights of others. Executive further represents and warrants that she is not obligated under any contract (including, but not limited to, licenses, covenants or commitments of any nature) or other agreement or subject to any judgment, decree or order of any court or administrative agency which would conflict with his obligation to use his best efforts to perform his duties hereunder or

which would conflict with the Company's business and operations as presently conducted or proposed to be conducted. Neither the execution nor delivery of this Agreement, nor the carrying on of the Company's business as officer and employee by Executive will conflict with or result in a breach of the terms, conditions or provisions of or constitute a default under any contract, covenant or instrument to which Executive is currently a party.

12. Miscellaneous.

(a) Integration; Amendment. This Agreement constitutes the entire agreement between the parties hereto with respect to the matters set forth herein and supersedes and renders 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 this Agreement shall be binding unless in writing and signed by both parties.

(b) Severability. If any part of this Agreement is contrary to, prohibited by, or deemed invalid under applicable law or regulations, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited, or invalid, but the remainder of this Agreement shall not be invalid and shall be given full force and effect so far as possible.

(c) Waivers. The failure or delay of any party at any time to

require performance by the other party of any provision of this Agreement, even if known, shall not affect the right of such party to require performance of that provision or to exercise any right, power, or remedy hereunder, and any waiver by any party of any breach of any provision of this Agreement shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself, or a waiver of any right, power, or remedy under this Agreement. No notice to or demand on any party in any case shall, of itself, entitle such party to other or further notice or demand in similar or other circumstances.

(d) Power and Authority. The Company represents and warrants to the Executive that it has the requisite corporate power to enter into this Agreement and perform the terms hereof; that the execution, delivery and performance of this Agreement by it has been duly authorized by all appropriate corporate action; and that this Agreement represents the valid and legally binding obligation of the Company and is enforceable against it in accordance with its terms.

(e) Burden and Benefit; Survival. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, personal and legal

representatives, successors and assigns. In addition to, and not in limitation of, anything contained in this Agreement, it is expressly understood and agreed that the Company's obligation to pay Termination Compensation as set forth herein shall survive any termination of this Agreement.

(f) 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. Headings and titles herein are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

(g) Arbitration; Remedies. Any dispute or controversy arising under this Agreement or as a result of or in connection with Executive's employment (other than disputes arising under Section 10) shall be arbitrated and settled pursuant to the National Rules for the Resolution of Employment Disputes of the American Arbitration Association which are then in effect in a proceeding held in Bergen County, New Jersey. This provision shall also apply to any and all claims that may be brought under any federal or state anti-discrimination or employment statute, rule or regulation, including, but not limited to, claims under: the National Labor Relations Act; Title VII of the Civil Rights Act; Sections 1981 through 1988 of Title 42 of the United States Code; the Employee Retirement Income Security Act; the Immigration Reform and Control Act; the Americans With Disabilities Act; the Age Discrimination in Employment Act; the Fair Labor Standards Act; the Occupational Safety and Health Act; the Family and Medical Leave Act; and the Equal Pay Act. The decision of the arbitrator and award, if any, is final and binding on the parties and the judgment may be entered in any court having jurisdiction thereof. The parties will agree upon an arbitrator from the list of labor arbitrators supplied by the American Arbitration Association. The parties understand and agree, however, that disputes arising under Section 10 of this Agreement may be brought in a court of law or equity without submission to arbitration.

(h) Jurisdiction. Except as otherwise provided for herein, each of the parties (a) 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 proceeding 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 and in the manner provided for giving of notices in Section 12(i). Nothing in this Section, however, shall affect the right of any party to serve legal process in any other manner permitted by law.

(i) Notices. All notices called for under this Agreement shall be in writing and shall be deemed given upon receipt if delivered personally or by confirmed facsimile transmission and followed promptly by mail, or mailed by registered or certified mail (return receipt requested), postage prepaid, to the parties at their respective addresses (or at such other address for a party as shall be specified by like notice; provided that notices of a change of address shall be effective only upon receipt thereof) as set forth in the preamble to this Agreement or to any other address or addressee as any party entitled to receive notice under this Agreement shall designate, from time to time, to others in the manner provided in this subsection 12(i) for the service of notices.

Any notice delivered to the party hereto to whom it is addressed shall be deemed to have been given and received on the day it was received; provided, however, that if such day is not a business day then the notice shall be deemed to have been given and received on the business day next following such day. Any notice sent by facsimile transmission shall be deemed to have been given and received on the business day next following the day of transmission.

(j) Number of Days. In computing the number of days for purposes of this Agreement, all days shall be counted, including Saturdays, Sundays and holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday or holiday on which federal banks are or may elect to be closed, then the final day shall be deemed to be the next day which is not a Saturday, Sunday or such holiday.

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

CHRISTOPHER TAMA

PDI, INC.

By:

Charles T. Saldarini
Chief Executive Officer

EXHIBIT 10.10

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made as of the 4th day of February, 2003, by and among PDI, INC., a Delaware corporation (the "Company"), having its principal place of business at 10 Mountainview Road, Upper Saddle River, New Jersey 07458, on the one hand, and LLOYD FISHMAN, residing at 412 Faletti Circle, River Vale, New Jersey 07675 (the "Executive"), on the other.

W I T N E S S E T H
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WHEREAS, the Company believes that it would benefit from the application of the Executive's particular and unique skills, experiences and background in connection with the management and operation of the Company, and wishes to employ the Executive as Executive Vice President; and

WHEREAS, the parties desire by this Agreement to set forth the terms and conditions of the employment relationship between the Company and the Executive.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants in this Agreement, the Company and the Executive agree as follows:

1. Employment and Duties. The Company hereby employs the Executive as Executive Vice President and General Manager on the terms and conditions provided in this Agreement and Executive agrees to accept such employment subject to the terms and conditions of this Agreement. The Executive shall be responsible for management of the day-to-day affairs of the Company's Medical Devices and Diagnostics Division, shall perform the duties and responsibilities as are customary for the officer of a corporation in such positions, and shall perform such other duties and responsibilities as are reasonably determined from time to time by the Chief Executive Officer and the Chief Operating Officer of the Company. The Executive shall report to and be supervised by the Company's Chief Executive Officer and the Chief Operating Officer. The Executive shall be based at the Company's offices in Upper Saddle River, New Jersey, or such other place that shall constitute the Company's headquarters. The Executive agrees to devote substantially all his attention and time during normal business hours to the business and affairs of the Company and to use his reasonable best efforts to perform faithfully and efficiently the duties and responsibilities of his positions and to

accomplish the goals and objectives of the Company as may be established from time to time by the Company's Board of Directors (the "Board"). Notwithstanding the foregoing, the Executive may engage in the following activities (and shall be entitled to retain all economic benefits thereof including fees paid in connection therewith) as long as they do not interfere in any material respect with the performance of the Executive's duties and responsibilities hereunder and, with respect to subsections (i) and (ii) below, that such activity is pre-approved by the Company's Chief Executive Officer or the Chief Operating Officer: (i) serve on corporate, civic, religious, educational and/or charitable boards or committees, provided that the Executive shall not serve on any board or committee of any corporation or other business which competes with the Business (as defined in Section 10(a) below); (ii) deliver lectures, fulfill speaking engagements or teach on a part-time basis at educational institutions; and (iii) make investments in businesses or enterprises and manage his personal investments; provided that with respect to such activities Executive shall comply with any business conduct and ethics policy applicable to employees of the Company.

2. Term. The term of this Agreement shall commence on February 4,, 2003 (the "Commencement Date"), and shall terminate on February 4, 2006, unless extended or earlier terminated in accordance with the terms of this Agreement (the "Termination Date"). Such term of employment is herein sometimes referred to as the "Employment Term". The Employment Term shall be extended for successive one year periods unless either party notifies the other in writing at least 90 days before the Termination Date, or any anniversary of the Termination Date, as the case may be, that she or it chooses not to extend the Employment Term.

3. Compensation. As compensation for performing the services required by

this Agreement, and during the term of this Agreement, the Executive shall be compensated as follows:

(a) Base Compensation. The Company shall pay to the Executive an annual salary ("Base Compensation") of $180,000, payable in equal installments pursuant to the Company's customary payroll procedures in effect for its executive personnel at the time of payment, but in no event less frequently than monthly, subject to withholding for applicable federal, state, and local income and employment related taxes. The Executive may be entitled to such increases in Base Compensation with respect to each calendar year during the term of this Agreement, as shall be determined by the Company's Compensation Committee (the "Committee"), in its sole and absolute discretion, based on an annual review of the Executive's performance.

(b) Incentive Compensation. In addition to Base Compensation, the Executive may be entitled to receive additional compensation ("Incentive Compensation") in the discretion of the Committee. The Incentive Compensation shall be pursuant to short-term and/or long-term incentive compensation programs which currently exist or may be established by the Company. For purposes of this Agreement, the Executive's "Pro Rata Share" of Incentive Compensation for any calendar of the Company shall be a fraction whose numerator shall be equal to the number of months (or parts of months) during which the Executive was actually employed by the Company during any such calendar year and whose denominator shall be the total number of months in such calendar year.

4. Employee Benefits. During the Employment Term and subject to the limitations set forth in this Section 4, the Executive and his eligible dependents shall have the right to participate in any retirement plans (qualified and non-qualified), pension, insurance, health, disability or other benefit plan or program that has been or is hereafter adopted by the Company (or in which the Company participates), according to the terms of such plan or program, on terms no less favorable than the most favorable terms granted to senior executives of the Company.

5. Vacation and Leaves of Absence. The Executive shall be entitled to the normal and customary amount of paid vacation provided to senior executive officers of the Company, but in no event less than 20 days during each 12 month period, beginning on the Commencement Date of this Agreement. Any vacation days that are not taken in a given 12 month period shall not accrue or carry-over from year to year. Upon any termination of this Agreement for any reason whatsoever, accrued and unused vacation for the year in which this Agreement terminates will be paid to the Executive within 10 days of such termination based on his annual rate of Base Compensation in effect on the date of such termination. In addition, the Executive may be granted leaves of absence with or without pay for such valid and legitimate reasons as the Company in its sole and absolute discretion may determine, and the Executive shall be entitled to the same sick leave and holidays provided to other senior executives of the Company.

6. Expenses.

(a) Business Expenses. The Executive shall be promptly reimbursed against presentation of vouchers or receipts for all reasonable and necessary expenses incurred by him in connection with the performance of his duties hereunder.

(b) Automobile Expense. During the Employment Term, in order to facilitate the performance of the Executive's duties hereunder, and otherwise for the convenience of the Company, the Company (a) (i) shall reimburse the Executive for the cost of leasing an automobile consistent with the Executive Vice President car benefit described in the Company's Car Benefit Program as of December 2002 or (ii) shall pay the Executive $850 per month and (b) shall pay or reimburse Executive (upon presentation of vouchers or receipts) for the reasonable cost of all maintenance, insurance, repairs, and other reasonable expenses related to such automobile. Employee hereby agrees that a new lease for an automobile will not be executed until Employee's existing lease term has expired.

7. Indemnification.

(a) General. The Company agrees that if the Executive is made a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that she is or was a director or officer of the Company, is or was serving at the request of the Company as a director, officer, member, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including, without limitation, service with respect to employee benefit plans, whether or not the basis of such Proceeding is alleged action in an official capacity as a director, officer, member, employee or agent while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Company to the fullest extent authorized by applicable law (in accordance with the certificate of incorporation and/or bylaws of the Company), as the same exists or may hereafter be amended, against all Expenses (as defined below) incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even if the Executive has ceased to be an officer, director or agent, or is no longer employed by the Company and shall inure to the benefit of his heirs, executors and administrators.

(b) Expenses. As used in this Agreement, the term "Expenses" shall include, without limitation, damages, losses, judgments, liabilities, fines, penalties, excise taxes, settlements and costs, attorneys' fees, accountants' fees, and disbursements and costs of attachment or similar bonds, investigations, and any expenses of establishing a right to indemnification under this Agreement.

(c) Enforcement. If a claim or request under this Agreement is not paid by the Company, or on their behalf, within fifteen days after a written claim or request has been received by the Company, the Executive may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim or request and if successful in whole or in part, the Executive shall be entitled to be paid also the expenses of prosecuting such suit. The burden of proving that the Executive is not entitled to indemnification for any reason shall be upon the Company.

(d) Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Executive.

(e) Partial Indemnification. If the Executive is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any Expenses, but not, however, for the total amount thereof, the Company shall nevertheless indemnify the Executive for the portion of such Expenses to which the Executive is entitled.

(f) Advances of Expenses. Expenses incurred by the Executive in connection with any Proceeding shall be paid by the Company in advance upon request of the Executive that the Company pay such Expenses.

(g) Notice of Claim. The Executive shall give to the Company notice of any claim made against him for which indemnity will or could be sought under this Agreement. In addition, the Executive shall give the Company such information and cooperation as it may reasonably require and as shall be within the Executive's power and at such times and places as are convenient for the Executive.

(h) Defense of Claim. With respect to any Proceeding as to which the Executive notifies the Company of the commencement thereof: (i) the Company will be entitled to participate therein at its own expense; and (ii) except as otherwise provided below, to the extent that it may wish, the Company jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to the Executive. The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which the Executive shall have reasonably concluded that there may be a conflict of interest between the Company and the Executive in the conduct of the defense of such action.

The Company shall not be liable to indemnify the Executive under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Company shall not settle any action or claim in any manner which would impose any penalty or limitation on the Executive without Executive's written consent. Neither the Company nor the Executive shall unreasonably withhold or delay their consent to any proposed settlement.

(i) Non-exclusivity. The right to indemnification and the payment of expenses incurred in defending a Proceeding in advance of its final disposition conferred in this Section 7 shall not be exclusive of any other right which the Executive may have or hereafter may acquire under any statute, provision of the certificate of incorporation or by-laws of the Company, agreement, vote of stockholders or disinterested directors or otherwise.

(j) Directors and Officers Liability Policy. The Company agrees to use reasonable efforts to maintain directors and officers liability insurance covering the Executive in a reasonable and adequate amount determined by the Company.

8. Termination and Termination Benefits.

(a) Termination by the Company.

(i) For Cause. Notwithstanding any provision contained herein, the Company may terminate this Agreement at any time during the Employment Term for "Cause". For purposes of this subsection 8(a)(i), "Cause" shall mean (1) the continuing failure by the Executive to perform his duties hereunder for any reason other than total or partial incapacity due to physical or mental illness, or (2) gross negligence or gross malfeasance on the part of the Executive in the performance of his duties hereunder that causes material harm to the Company. Termination pursuant to this subsection 8(a)(i) shall be effective immediately upon giving the Executive written notice thereof stating the reason or reasons therefor with respect to clause (2) above, and 15 days after written notice thereof from the Company to the Executive specifying the acts or omissions constituting the failure and requesting that they be remedied with respect to clause (1) above, but only if the Executive has not cured such failure within such 15 day period. In the event of a termination pursuant to this subsection 8(a)(i), the Executive shall be entitled to payment of his Base Compensation and the benefits pursuant to Section 4 hereof up to the effective date of such termination and it is also the intention and agreement of the Company that Executive shall not be deprived by reason of termination for Cause of any payments, options or benefits which have been

vested or have been earned or to which Executive is entitled as of the effective date of such termination.

(ii) Disability. If due to illness, physical or mental disability, or other incapacity, the Executive shall fail, for a total of any six consecutive months ("Disability"), to substantially perform the principal duties required by this Agreement, the Company may terminate this Agreement upon 30 days' written notice to the Executive. In such event, the Executive shall be (1) paid his Base Compensation until the Termination Date and his Pro Rata Share of any Incentive Compensation to which she would have been entitled for the year in which such termination occurs, and (2) provided with employee benefits pursuant to Section 4, to the extent available, for the remainder of the Employment Term; provided, however, that any compensation to be paid to the Executive pursuant to this subsection 8(a)(ii) shall be offset against any payments received by the Executive pursuant to any policy of disability insurance the premiums of which are paid for by the Company.

(b) Termination Without Cause or Termination For Good Reason. The Company may terminate the Executive's employment hereunder without Cause and the Executive may terminate his employment hereunder for "Good Reason" (as defined below). If the Company terminates the Executive's employment hereunder without Cause, other than due to death or Disability, or if the Executive terminates his employment for Good Reason, the Executive shall be paid: (i) his Base Compensation at the rate in effect at the time of termination through the

Termination Date; (ii) his Pro Rata Share of any Incentive Compensation to which she would have been entitled for the year in which such termination occurs; (iii) a lump sum payment equal to the product of thirty-six (36) times the "Monthly Salary Amount"; (iv) any vested deferred compensation (including, without limitation, interest or other credits on the deferred amounts) and any accrued vacation pay; (v) continuation, until the expiration of the Employment Term and for twelve months thereafter, of the health and welfare benefits of the Executive and any long-term disability insurance generally provided to senior executives of the Company (as provided for by Section 4 of this Agreement) (or the Company shall provide the economic equivalent thereof); provided, however, if the Executive obtains new employment and such employment makes the Executive eligible for health and welfare or long-term disability benefits which are equal to or greater in scope then the benefits then being offered by the Company, then the Company shall no longer be required to

provide such benefits to the Executive; and (vi) any other compensation and benefits as may be provided in accordance with the terms and provisions of any applicable plans or programs of the Company.

As used herein, "Monthly Salary Amount" shall mean an amount equal to one-twelfth of the sum of (y) the Executive's then current annual Base Salary plus (z) the average cash incentive compensation paid to the Executive during the three years immediately preceding the termination date.

As used herein, "Good Reason" means and shall be deemed to exist if, without the prior express written consent of the Executive, (a) the Company breaches this Agreement in any material respect; (b) the Company fails to obtain the full assumption of this Agreement by a successor; (c) the Company fails to use its reasonable best efforts to maintain, or cause to be maintained directors and officers liability insurance coverage for the Executive; (d) the Company purports to terminate the Executive's employment for Cause and such purported termination of employment is not effected in accordance with the requirements of this Agreement, or (e) of within two years following the occurrence of a Change in Control (i) the Executive suffers an adverse change in his status, title, position or responsibilities, (ii) the Executive suffers a reduction in his base salary, (iii) the Executive suffers an adverse change in his working conditions, or (iv) the Company breaches any material provision of this Agreement; provided, however, that with respect to items (a) through (d) above, within 30 days of written notice of termination by the Executive, the Company has not cured, or commenced to cure, such failure or breach.

For purposes of this Agreement, a "Change of Control" shall mean (1) 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 55% of the surviving Corporation; (2) 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; (3) the acquisition of beneficial ownership, directly or indirectly, 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) and 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 of the Company, as then constituted; or (4) the acquisition of beneficial ownership, directly or indirectly, of voting securities and rights to acquire voting securities having voting power equal to 25% 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 unless such acquisition as is described in this part (4) is expressly approved by resolution of the Board of the Company passed upon affirmative vote of not less than a majority of the Board and adopted at a meeting of the Board held not later than the date of the next regularly scheduled or special meeting held following the

date the Company obtains actual knowledge of such acquisition (which approval may be limited in purpose and effect solely to affecting the rights of Employee under this Agreement). Notwithstanding the preceding sentence, (i) 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 Internal Revenue Code of 1986, as amended, or a transaction of similar effect, shall not constitute a Change in Control.

(c) Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided or maintained by the Company and for which the Executive may qualify, nor shall anything herein limit or otherwise prejudice such rights as the Executive may have under any other existing or future agreements with the Company. Except as otherwise expressly provided for in this Agreement, amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plans or programs of the Company at or subsequent to the date of termination shall be payable in accordance with such plans or programs.

(d) Vesting of Stock Grants and Stock Options. In the event of any termination of this Agreement, Executive's rights with regard to any stock grants, loan agreements or stock options shall be as set forth in the respective agreement containing the terms and conditions pertaining thereto. Notwithstanding the foregoing, in the event that the Executive is terminated for reasons other than for "Cause" or in the event the Executive terminates this Agreement for "Good Reason", any stock options then held by the Executive shall immediately vest in the Executive;

provided, however, all stock options then held by the Executive shall expire and/or terminate 90 days after the date this Agreement is terminated.

(e) Certain Additional Payments by the Company. Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (an "Excise Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax imposed upon the Excise Gross-Up Payment and any ordinary income tax on the Excise Gross-Up Payment, in order to put the Executive in the same net after-tax position as if the payment were not subject to any Excise Tax. Subject to the provisions of this Section 8(e), all determinations required to be made hereunder, including whether an Excise Gross-Up Payment is required and the amount of such Excise Gross-Up Payment, shall be made by PricewaterhouseCoopers LLP or such other accounting firm which at the time audits the financial statements of the Company (the "Accounting Firm") at the sole expense of the Company, which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the date of termination of the Executive's employment under this Agreement, if applicable, or such earlier time as is requested by the Company.

If the Accounting Firm determines that no Excise Tax is payable by the Executive, the Company shall use its reasonable best efforts to cause the Accounting Firm to furnish the Executive with an opinion that she has substantial authority not to report any Excise Tax on his federal income tax return. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Excise Gross-Up Payments, which will not have been made by the Company, should have been made (an "Underpayment") consistent with the calculations required to be made hereunder. If the Company exhausts its remedies pursuant hereto and the Executive thereafter is required to make a payment of

any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Excise Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive knows of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall: (i) give the Company any information reasonably requested by the Company relating to such claim; (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including (without limitation) accepting legal representation with respect to such claim by an attorney reasonably selected by the Company; (iii) cooperate with the Company in good faith to contest effectively such claim; and (iv) permit the Company to participate in any proceedings relating to such claim; provided that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions hereof the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify

and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance, and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which an Excise Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

If, after the receipt by the Executive of an amount advanced by the Company pursuant hereto, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant hereto, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Excise Gross-Up Payment required to be paid.

(f) Death Benefit. Notwithstanding any other provision of this Agreement, this Agreement shall terminate on the date of the Executive's death.

In such event the Company shall pay Executive's Base Compensation to his wife, if she survives him, or, if she does not survive him, to his estate, through the termination date. In addition, the Company shall pay to Executive's wife, if she survives him, or, if she does not survive him, to his estate, the Pro Rata Share of any Incentive Compensation to which Executive would have been entitled for the year in which such death occurs.

(g) Payment. Except as otherwise provided in this Agreement, any payments to which the Executive shall be entitled under this Section 8, including, without limitation, any economic equivalent of any benefit, shall be made as promptly as possible following the date of termination. If the amount of any payment due to the Executive cannot be finally determined within

90 days after the Date of Termination, such amount shall be estimated on a good faith basis by the Company and the estimated amount shall be paid no later than 90 days after such Date of Termination. As soon as practicable hereafter, the final determination of the amount due shall be made and any adjustment requiring a payment to or from the Executive shall be made as promptly as practicable.

(h) No Mitigation. The Executive shall not be required to mitigate the amount of any payments provided for by this Agreement by seeking employment or otherwise, nor shall the amount of any payment or benefit provided in this Agreement be reduced by any compensation or benefit earned by the Executive after termination of his employment.

9. Company Property. All advertising, promotional, sales, suppliers, manufacturers and other materials or articles or information, including without limitation data processing reports, customer lists, customer sales analyses, invoices, product lists, price lists or information, samples, or any other materials or data of any kind furnished to the Executive by the Company or developed by the Executive on behalf of the Company or at the Company's direction or for the Company's use or otherwise in connection with the Executive's employment hereunder, are and shall remain the sole and confidential property of the Company; if the Company requests the return of such materials at any time during or at or after the termination of the Executive's employment, the Executive shall immediately deliver the same to the Company.

10. Covenant Not To Compete.

(a) Covenants Against Competition. The Executive acknowledges that as of the execution of this Employment Agreement (i) the Company is engaged in the business of providing sales and marketing and marketing research services to the pharmaceutical, medical device and diagnostics and biotechnology industries and in the sale of pharmaceutical, medical device and diagnostics and biotechnology products (the "Business"); (ii) the Company's Business is conducted currently throughout the United States and may be expanded to other locations; (iii) his employment with the Company will have given him access to confidential information concerning the Company; and (iv) the agreements and covenants contained in this Agreement are essential to protect the business and goodwill of the Company. Accordingly, the Executive covenants and agrees as follows:

(i) Non-Compete. Without the prior written consent of the Board of the Company, the Executive shall not during the Restricted Period (as defined below) within the

Restricted Area (as defined below) (except in the Executive's capacity as an officer of the Company or any of its affiliates), (a) engage or participate in the Business; (b) enter the employ of, or render any services (whether or not for a fee or other compensation) to, any person engaged in the Business; or (c) acquire an equity interest in any such person; provided, that the foregoing restrictions shall not apply at any time if the Executive's employment is terminated during the Term by the Executive for Good Reason (as defined in Section 8(b) below) or by the Company other than for "Cause"; provided, further, that during the Restricted Period the Executive may own, directly or indirectly, solely as a passive investment, securities of any company traded on any national securities exchange or on the National Association of Securities Dealers

Automated Quotation System.

As used herein, "Restricted Period" shall mean the period commencing on the Commencement Date and ending on the second anniversary of the Executive's termination of employment.

"Restricted Area" shall mean any place within the United States and any other country in which the Company is then actively considering conducting Business.

(b) Confidential Information; Personal Relationships. The Executive acknowledges that the Company has a legitimate and continuing proprietary interest in the protection of its confidential information and has invested substantial sums and will continue to invest substantial sums to develop, maintain and protect confidential information. The Executive agrees that, during and after the Restricted Period, without the prior written consent of the Board, the Executive shall keep secret and retain in strictest confidence, and shall not knowingly use for the benefit of himself or others all confidential matters relating to the Company's Business including, without limitation, operational methods, marketing or development plans or strategies, business acquisition plans, joint venture proposals or plans, and new personnel acquisition plans, learned by the Executive heretofore or hereafter (such information shall be referred to herein collectively as "Confidential Information"); provided, that nothing in this Agreement shall prohibit the Executive from disclosing or using any Confidential Information (A) in the performance of his duties hereunder, (B) as required by applicable law, (C) in connection with the enforcement of his rights under this Agreement or any other agreement with the Company, or (D) in connection with the defense or settlement of any claim, suit or action brought or threatened against the Executive by or in the right of the Company. Notwithstanding any provision contained herein to the contrary, the term

Confidential Information shall not be deemed to include any general knowledge, skills or experience acquired by the Executive or any knowledge or information known or available to the public in general. Moreover, the Executive shall be permitted to retain copies of, or have access to, all such Confidential Information relating to any disagreement, dispute or litigation (pending or threatened) involving the Executive.

(c) Employees of the Company and its Affiliates. During the Restricted Period, without the prior written consent of the Board of the Company, the Executive shall not, directly or indirectly, hire or solicit, or cause others to hire or solicit, for employment by any person other than the Company or any affiliate or successor thereof, any employee of, or person employed within the two years preceding the Executive's hiring or solicitation of such person by, the Company and its affiliates or successors or encourage any such employee to leave his employment. For this purpose, any person whose employment has been terminated involuntarily by the Company shall be excluded from those persons protected by this Section for the benefit of the Company.

(d) Business Relationships. During the Restricted Period, the Executive shall not, directly or indirectly, request or advise a person that has a business relationship with the Company to curtail or cancel such person's business relationship with the Company.

(e) Rights and Remedies Upon Breach. If the Executive breaches, threatens to commit a breach of, any of the provisions contained in Section 10 of this Agreement (the "Restrictive Covenants"), the Company shall have the following rights and remedies, each of which rights and remedies shall be independent of the others and severally enforceable, and each of which is in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity.

(i) Specific Performance. The right and remedy to have the Restrictive Covenants specifically enforced by any court of competent jurisdiction, it being agreed that any breach or threatened breach of the Restrictive Covenants would cause irreparable injury to the Company and that money damages would not provide an adequate remedy to the Company.

(ii) Accounting. The right and remedy to require the Executive to account for and pay over to the Company all compensation, profits, monies,

accruals, increments or other benefits derived or received by the Executive as the result of any action constituting a breach of Restrictive Covenants.

15

(f) Severability of Covenants. The Executive acknowledges and agrees that the Restrictive Covenants are reasonable and valid in duration and geographical scope and in all other respects. If any court determines that any of the Restrictive Covenants, or any part thereof, is invalid or unenforceable, the remainder of the Restrictive Covenants shall not thereby be affected and shall be given full effect without regard to the invalid portions. The provisions set forth in Section 10 above shall be in addition to any other provisions of the business conduct and ethics policy applicable to employees of the Company and its subsidiaries during the term of Executive's employment.

(g) Saving Clause. If the period of time or the area specified in subsection (a) above should be adjudged unreasonable in any proceeding, then the period of time shall be reduced by such number of months or the area shall be reduced by the elimination of such portion thereof or both so that such restrictions may be enforced in such area and for such time as is adjudged to be reasonable. If the Executive violates any of the restrictions contained in the foregoing subsection (a), the restrictive period shall not run in favor of the Executive from the time of the commencement of any such violation until such time as such violation shall be cured by the Executive to the satisfaction of Company.

11. Executive's Representation and Warranties. Executive represents and warrants that she has the full right and authority to enter into this Agreement and fully perform his obligations hereunder, that she is not subject to any non-competition agreement other than with the Company, and that his past, present and anticipated future activities have not and will not infringe on the proprietary rights of others. Executive further represents and warrants that she is not obligated under any contract (including, but not limited to, licenses, covenants or commitments of any nature) or other agreement or subject to any judgment, decree or order of any court or administrative agency which would conflict with his obligation to use his best efforts to perform his duties hereunder or which would conflict with the Company's business and operations as presently conducted or proposed to be conducted. Neither the execution nor delivery of this Agreement, nor the carrying on of the Company's business as officer and employee by Executive will conflict with or result in a breach of the terms, conditions or provisions of or constitute a default under any contract, covenant or instrument to which Executive is currently a party.

16

12. Miscellaneous.

(a) Integration; Amendment. This Agreement constitutes the entire agreement between the parties hereto with respect to the matters set forth herein and supersedes and renders 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 this Agreement shall be binding unless in writing and signed by both parties.

(b) Severability. If any part of this Agreement is contrary to, prohibited by, or deemed invalid under applicable law or regulations, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited, or invalid, but the remainder of this Agreement shall not be invalid and shall be given full force and effect so far as possible.

(c) Waivers. The failure or delay of any party at any time to require performance by the other party of any provision of this Agreement, even if known, shall not affect the right of such party to require performance of that provision or to exercise any right, power, or remedy hereunder, and any waiver by any party of any breach of any provision of this Agreement shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself, or a waiver of any right, power, or remedy under this Agreement. No notice to or demand on any party in any case shall, of itself, entitle such party to other or further notice or demand in similar or other circumstances.

(d) Power and Authority. The Company represents and warrants to the Executive that it has the requisite corporate power to enter into this Agreement and perform the terms hereof; that the execution, delivery and performance of this Agreement by it has been duly authorized by all appropriate corporate action; and that this Agreement represents the valid and legally binding obligation of the Company and is enforceable against it in accordance with its terms.

(e) Burden and Benefit; Survival. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, personal and legal representatives, successors and assigns. In addition to, and not in limitation of, anything contained in this Agreement, it is expressly understood and agreed that the Company's obligation to pay Termination Compensation as set forth herein shall survive any termination of this Agreement.

(f) 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. Headings and titles herein are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

(g) Arbitration; Remedies. Any dispute or controversy arising under this Agreement or as a result of or in connection with Executive's employment (other than disputes arising under Section 10) shall be arbitrated and settled pursuant to the National Rules for the Resolution of Employment Disputes of the American Arbitration Association which are then in effect in a proceeding held in Bergen County, New Jersey. This provision shall also apply to any and all claims that may be brought under any federal or state anti-discrimination or employment statute, rule or regulation, including, but not limited to, claims under: the National Labor Relations Act; Title VII of the Civil Rights Act; Sections 1981 through 1988 of Title 42 of the United States Code; the Employee Retirement Income Security Act; the Immigration Reform and Control Act; the Americans With Disabilities Act; the Age Discrimination in Employment Act; the Fair Labor Standards Act; the Occupational Safety and Health Act; the Family and Medical Leave Act; and the Equal Pay Act. The decision of the arbitrator and award, if any, is final and binding on the parties and the judgment may be entered in any court having jurisdiction thereof. The parties will agree upon an arbitrator from the list of labor arbitrators supplied by the American Arbitration Association. The parties understand and agree, however, that disputes arising under Section 10 of this Agreement may be brought in a court of law or equity without submission to arbitration.

(h) Jurisdiction. Except as otherwise provided for herein, each of the parties (a) 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 proceeding 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 and in the manner provided for giving of notices

in Section 12(i). Nothing in this Section, however, shall affect the right of any party to serve legal process in any other manner permitted by law.

(i) Notices. All notices called for under this Agreement shall be in writing and shall be deemed given upon receipt if delivered personally or by confirmed facsimile transmission and followed promptly by mail, or mailed by registered or certified mail (return receipt requested), postage prepaid, to the

parties at their respective addresses (or at such other address for a party as shall be specified by like notice; provided that notices of a change of address shall be effective only upon receipt thereof) as set forth in the preamble to this Agreement or to any other address or addressee as any party entitled to receive notice under this Agreement shall designate, from time to time, to others in the manner provided in this subsection 12(i) for the service of notices.

Any notice delivered to the party hereto to whom it is addressed shall be deemed to have been given and received on the day it was received; provided, however, that if such day is not a business day then the notice shall be deemed to have been given and received on the business day next following such day. Any notice sent by facsimile transmission shall be deemed to have been given and received on the business day next following the day of transmission.

(j) Number of Days. In computing the number of days for purposes of this Agreement, all days shall be counted, including Saturdays, Sundays and holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday or holiday on which federal banks are or may elect to be closed, then the final day shall be deemed to be the next day which is not a Saturday, Sunday or such holiday.

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

LLOYD FISHMAN

PDI, INC.

By:

Charles T. Saldarini
Chief Executive Officer

EXHIBIT 10.11

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made as of the 5th day of November, 2002, by and among PDI, INC., a Delaware corporation (the "Company"), having its principal place of business at 10 Mountainview Road, Upper Saddle River, New Jersey 07458, on the one hand, and BETH JACOBSON, residing at 26 Random Farms Circle, Chappaqua, New York 10514 (the "Executive"), on the other.

W I T N E S S E T H
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WHEREAS, the Company believes that it would benefit from the application of the Executive's particular and unique skills, experiences and background in connection with the management and operation of the Company, and wishes to employ the Executive as Executive Vice President and General Counsel; and

WHEREAS, the parties desire by this Agreement to set forth the terms and conditions of the employment relationship between the Company and the Executive.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants in this Agreement, the Company and the Executive agree as follows:

1. Employment and Duties. The Company hereby employs the Executive as Executive Vice President and General Counsel on the terms and conditions provided in this Agreement and Executive agrees to accept such employment subject to the terms and conditions of this Agreement. The Executive shall be responsible for management of the day-to-day legal affairs of the Company, shall perform the duties and responsibilities as are customary for the officer of a corporation in such positions, and shall perform such other duties and responsibilities as are reasonably determined from time to time by the Chief Executive Officer of the Company. The Executive shall report to and be supervised by the Company's Chief Executive Officer. The Executive shall be based at the Company's offices in Upper Saddle River, New Jersey a minimum of three days per week, or such other place that shall constitute the Company's headquarters and, except for business travel incident to her employment under this Agreement, the Company agrees the Executive shall not be required to relocate. The Executive agrees to devote substantially all her attention and time during normal business hours to the business and affairs of the Company and to use her reasonable best efforts to

perform faithfully and efficiently the duties and responsibilities of her positions and to accomplish the goals and objectives of the Company as may be established from time to time by the Company's Board of Directors (the "Board"). Notwithstanding the foregoing, the Executive may engage in the following activities (and shall be entitled to retain all economic benefits thereof including fees paid in connection therewith) as long as they do not interfere in any material respect with the performance of the Executive's duties and responsibilities hereunder and, with respect to subsections (i) and (ii) below, that such activity is pre-approved by the Company's Chief Executive Officer: (i) serve on corporate, civic, religious, educational and/or charitable boards or committees, provided that the Executive shall not serve on any board or committee of any corporation or other business which competes with the Business (as defined in Section 10(a) below); (ii) deliver lectures, fulfill speaking engagements or teach on a part-time basis at educational institutions; and (iii) make investments in businesses or enterprises and manage her personal investments; provided that with respect to such activities Executive shall comply with any business conduct and ethics policy applicable to employees of the Company.

2. Term. The term of this Agreement shall commence on November 5, 2002 (the "Commencement Date"), and shall terminate on December 31, 2005, unless extended or earlier terminated in accordance with the terms of this Agreement (the "Termination Date"). Such term of employment is herein sometimes referred to as the "Employment Term". The Employment Term shall be extended for successive one year periods unless either party notifies the other in writing at least 90 days before the Termination Date, or any anniversary of the Termination Date, as the case may be, that she or it chooses not to extend the Employment Term.

3. Compensation. As compensation for performing the services required by this Agreement, and during the term of this Agreement, the Executive shall be compensated as follows:

(a) Base Compensation. The Company shall pay to the Executive an annual salary ("Base Compensation") of $185,000, payable in equal installments pursuant to the Company's customary payroll procedures in effect for its executive personnel at the time of payment, but in no event less frequently than monthly, subject to withholding for applicable federal, state, and local income and employment related taxes. The Executive may be entitled to such increases in Base Compensation with respect to each calendar year during the term of this Agreement, as shall be

determined by the Company's Compensation Committee (the "Committee"), in its sole and absolute discretion, based on an annual review of the Executive's performance.

(b) Incentive Compensation. In addition to Base Compensation, the Executive may be entitled to receive additional compensation ("Incentive Compensation") in the discretion of the Committee. The Incentive Compensation shall be pursuant to short-term and/or long-term incentive compensation programs which currently exist or may be established by the Company. For purposes of this Agreement, the Executive's "Pro Rata Share" of Incentive Compensation for any calendar of the Company shall be a fraction whose numerator shall be equal to the number of months (or parts of months) during which the Executive was actually employed by the Company during any such calendar year and whose denominator shall be the total number of months in such calendar year.

(c) Sign-on Bonus. In addition to Base Compensation, the Company shall pay to the Executive in the first payroll period following the Commencement Date the sum of $25,000 subject to withholding for applicable federal, state and local taxes.

4. Employee Benefits. During the Employment Term and subject to the limitations set forth in this Section 4, the Executive and her eligible dependents shall have the right to participate in any retirement plans (qualified and non-qualified), pension, insurance, health, disability or other benefit plan or program that has been or is hereafter adopted by the Company (or in which the Company participates), according to the terms of such plan or program, on terms no less favorable than the most favorable terms granted to senior executives of the Company.

5. Vacation and Leaves of Absence. The Executive shall be entitled to the normal and customary amount of paid vacation provided to senior executive officers of the Company, but in no event less than 20 days during each 12 month period, beginning on the Commencement Date of this Agreement. Any vacation days that are not taken in a given 12 month period shall not accrue or carry-over from year to year. Upon any termination of this Agreement for any reason whatsoever, accrued and unused vacation for the year in which this Agreement terminates will be paid to the Executive within 10 days of such termination based on her annual rate of Base Compensation in effect on the date of such termination. In addition, the Executive may be granted leaves of absence with or without pay for such valid and legitimate reasons as the Company in its sole and absolute discretion may determine, and the Executive shall be entitled to the same sick leave and holidays provided to other senior executives of the Company.

6. Expenses.

(a) Business Expenses. The Executive shall be promptly reimbursed against presentation of vouchers or receipts for all reasonable and necessary expenses incurred by her in connection with the performance of her duties hereunder.

(b) Automobile Expense. During the Employment Term, in order to facilitate the performance of the Executive's duties hereunder, and otherwise for the convenience of the Company, the Company shall reimburse the Executive $500 per month for the cost of an automobile and shall pay or reimburse

Executive (upon presentation of vouchers or receipts) for the reasonable cost of all maintenance, insurance, repairs, and other reasonable expenses related to such automobile.

7. Indemnification.

(a) General. The Company agrees that if the Executive is made a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that she is or was a director or officer of the Company, is or was serving at the request of the Company as a director, officer, member, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including, without limitation, service with respect to employee benefit plans, whether or not the basis of such Proceeding is alleged action in an official capacity as a director, officer, member, employee or agent while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Company to the fullest extent authorized by applicable law (in accordance with the certificate of incorporation and/or bylaws of the Company), as the same exists or may hereafter be amended, against all Expenses (as defined below) incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even if the Executive has ceased to be an officer, director or agent, or is no longer employed by the Company and shall inure to the benefit of her heirs, executors and administrators.

(b) Expenses. As used in this Agreement, the term "Expenses" shall include, without limitation, damages, losses, judgments, liabilities, fines, penalties, excise taxes, settlements and costs, attorneys' fees, accountants' fees, and disbursements and costs of attachment or similar bonds, investigations, and any expenses of establishing a right to indemnification under this Agreement.

(c) Enforcement. If a claim or request under this Agreement is not paid by the Company, or on their behalf, within fifteen days after a written claim or request has been received by the Company, the Executive may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim or request and if successful in whole or in part, the Executive shall be entitled to be paid also the expenses of prosecuting such suit. The burden of proving that the Executive is not entitled to indemnification for any reason shall be upon the Company.

(d) Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Executive.

(e) Partial Indemnification. If the Executive is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any Expenses, but not, however, for the total amount thereof, the Company shall nevertheless indemnify the Executive for the portion of such Expenses to which the Executive is entitled.

(f) Advances of Expenses. Expenses incurred by the Executive in connection with any Proceeding shall be paid by the Company in advance upon request of the Executive that the Company pay such Expenses.

(g) Notice of Claim. The Executive shall give to the Company notice of any claim made against her for which indemnity will or could be sought under this Agreement. In addition, the Executive shall give the Company such information and cooperation as it may reasonably require and as shall be within the Executive's power and at such times and places as are convenient for the Executive.

(h) Defense of Claim. With respect to any Proceeding as to which the Executive notifies the Company of the commencement thereof: (i) the Company will be entitled to participate therein at its own expense; and (ii) except as otherwise provided below, to the extent that it may wish, the Company jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to the Executive. The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which the Executive

shall have reasonably concluded that there may be a conflict of interest between the Company and the Executive in the conduct of the defense of such action.

The Company shall not be liable to indemnify the Executive under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Company shall not settle any action or claim in any manner which would impose any penalty or limitation on the Executive without Executive's written consent. Neither the Company nor the Executive shall unreasonably withhold or delay their consent to any proposed settlement.

(i) Non-exclusivity. The right to indemnification and the payment of expenses incurred in defending a Proceeding in advance of its final disposition conferred in this Section 7 shall not be exclusive of any other right which the Executive may have or hereafter may acquire under any statute, provision of the certificate of incorporation or by-laws of the Company, agreement, vote of stockholders or disinterested directors or otherwise.

(j) Directors and Officers Liability Policy. The Company agrees to use reasonable efforts to maintain directors and officers liability insurance covering the Executive in a reasonable and adequate amount determined by the Company.

8. Termination and Termination Benefits.

(a) Termination by the Company.

(i) For Cause. Notwithstanding any provision contained herein, the Company may terminate this Agreement at any time during the Employment Term for "Cause". For purposes of this subsection 8(a)(i), "Cause" shall mean (1) the continuing willful failure by the Executive to substantially perform her duties hereunder for any reason other than total or partial incapacity due to physical or mental illness, or (2) gross negligence or gross malfeasance on the part of the Executive in the performance of her duties hereunder that causes material harm to the Company. Termination pursuant to this subsection 8(a)(i) shall be effective immediately upon giving the Executive written notice thereof stating the reason or reasons therefor with respect to clause (2) above, and 15 days after written notice thereof from the Company to the Executive specifying the acts or omissions constituting the failure and requesting that they be remedied with respect to clause (1) above, but only if the Executive has not cured such failure within such 15 day period. In the event of a termination pursuant to this subsection 8(a)(i), the Executive shall be entitled to payment of her Base Compensation and the benefits pursuant to Section 4 hereof up to the effective date of such termination and it is also the intention and agreement of the Company that Executive shall not be deprived by reason of termination for Cause of any payments, options or benefits which have been

vested or have been earned or to which Executive is entitled as of the effective date of such termination.

(ii) Disability. If due to illness, physical or mental disability, or other incapacity, the Executive shall fail, for a total of any six consecutive months ("Disability"), to substantially perform the principal duties required by this Agreement, the Company may terminate this Agreement upon 30 days' written notice to the Executive. In such event, the Executive shall be (1) paid her Base Compensation until the Termination Date and her Pro Rata Share of any Incentive Compensation to which she would have been entitled for the year in which such termination occurs, and (2) provided with employee benefits pursuant to Section 4, to the extent available, for the remainder of the Employment Term; provided, however, that any compensation to be paid to the Executive pursuant to this subsection 8(a)(ii) shall be offset against any payments received by the Executive pursuant to any policy of disability insurance the premiums of which are paid for by the Company.

(b) Termination Without Cause or Termination For Good Reason. The Company may terminate the Executive's employment hereunder without Cause and the Executive may terminate her employment hereunder for "Good Reason" (as defined

below). If the Company terminates the Executive's employment hereunder without Cause, other than due to death or Disability, or if the Executive terminates her employment for Good Reason, the Executive shall be paid: (i) her Base Compensation at the rate in effect at the time of termination through the Termination Date; (ii) her Pro Rata Share of any Incentive Compensation to which she would have been entitled for the year in which such termination occurs; (iii) a lump sum payment equal to the product of thirty-six (36) times the "Monthly Salary Amount"; (iv) any vested deferred compensation (including, without limitation, interest or other credits on the deferred amounts) and any accrued vacation pay; (v) continuation, until the expiration of the Employment Term and for twelve months thereafter, of the health and welfare benefits of the Executive and any long-term disability insurance generally provided to senior executives of the Company (as provided for by Section 4 of this Agreement) (or the Company shall provide the economic equivalent thereof); provided, however, if the Executive obtains new employment and such employment makes the Executive eligible for health and welfare or long-term disability benefits which are equal to or greater in scope then the benefits then being offered by the Company, then the Company shall no longer be required to provide such benefits to the Executive;

and (vi) any other compensation and benefits as may be provided in accordance with the terms and provisions of any applicable plans or programs of the Company.

As used herein, "Monthly Salary Amount" shall mean an amount equal to one-twelfth of the sum of (y) the Executive's then current annual Base Salary plus (z) the average cash incentive compensation paid to the Executive during the three years immediately preceding the termination date.

As used herein, "Good Reason" means and shall be deemed to exist if, without the prior express written consent of the Executive, (a) the Company breaches this Agreement in any material respect; (b) the Company fails to obtain the full assumption of this Agreement by a successor; (c) the Company fails to use its reasonable best efforts to maintain, or cause to be maintained directors and officers liability insurance coverage for the Executive; (d) the Company purports to terminate the Executive's employment for Cause and such purported termination of employment is not effected in accordance with the requirements of this Agreement, or (e) of within two years following the occurrence of a Change in Control (i) the Executive suffers an adverse change in her status, title, position or responsibilities, (ii) the Executive suffers a reduction in her base salary, (iii) the Executive suffers an adverse change in her working conditions, or (iv) the Company breaches any material provision of this Agreement; provided, however, that with respect to items (a) through (d) above, within 30 days of written notice of termination by the Executive, the Company has not cured, or commenced to cure, such failure or breach.

For purposes of this Agreement, a "Change of Control" shall mean (1) 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 55% of the surviving Corporation; (2) 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; (3) the acquisition of beneficial ownership, directly or indirectly, 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) and 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 of the Company, as then constituted; or (4) the acquisition of beneficial ownership, directly or indirectly, of voting securities and rights to acquire voting securities having voting power equal to 25% 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 unless such acquisition as is described in this part (4) is expressly approved by resolution of the Board of the Company passed upon affirmative vote of not less than a majority of the Board and adopted at a meeting of the Board held not later than the date of the next regularly scheduled or special meeting held following the date the Company obtains actual knowledge of such acquisition (which approval may be limited in purpose and effect solely to affecting the rights of Employee under this Agreement). Notwithstanding the preceding sentence, (i) 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 Internal Revenue Code of 1986, as amended, or a transaction of similar effect, shall not constitute a Change in Control.

(c) Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided or maintained by the Company and for which the Executive may qualify, nor shall anything herein limit or otherwise prejudice such rights as the Executive may have under any other existing or future agreements with the Company. Except as otherwise expressly provided for in this Agreement, amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plans or programs of the Company at or subsequent to the date of termination shall be payable in accordance with such plans or programs.

(d) Vesting of Stock Grants and Stock Options. In the event of any termination of this Agreement, Executive's rights with regard to any stock grants, loan agreements or stock options shall be as set forth in the respective agreement containing the terms and conditions pertaining thereto. Notwithstanding the foregoing, in the event that the Executive is terminated for reasons other than for "Cause" or in the event the Executive terminates this Agreement for "Good Reason", any stock options then held by the Executive shall immediately vest in the Executive; provided, however, all stock options then held by the Executive shall expire and/or terminate 90 days after the date this Agreement is terminated.

(e) Certain Additional Payments by the Company. Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (an "Excise Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax imposed upon the Excise Gross-Up Payment and any ordinary income tax on the Excise Gross-Up Payment, in order to put the Executive in the same net after-tax position as if the payment were not subject to any Excise Tax. Subject to the provisions of this Section 8(e), all determinations required to be made hereunder, including whether an Excise Gross-Up Payment is required and the amount of such Excise Gross-Up Payment, shall be made by PricewaterhouseCoopers LLP or such other accounting firm which at the time audits the financial statements of the Company (the "Accounting Firm") at the sole expense of the Company, which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the date of termination of the Executive's employment under this Agreement, if applicable, or such earlier time as is requested by the Company.

If the Accounting Firm determines that no Excise Tax is payable by the Executive, the Company shall use its reasonable best efforts to cause the Accounting Firm to furnish the Executive with an opinion that she has substantial authority not to report any Excise Tax on her federal income tax return. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Excise Gross-Up Payments, which will not have been made by the Company, should have been made (an "Underpayment") consistent with the calculations required to be made hereunder.

If the Company exhausts its remedies pursuant hereto and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has

occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Excise Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive knows of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall: (i) give the Company any information reasonably requested by the Company relating to such claim; (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including (without limitation) accepting legal representation with respect to such claim by an attorney reasonably selected by the Company; (iii) cooperate with the Company in good faith to contest effectively such claim; and (iv) permit the Company to participate in any proceedings relating to such claim; provided that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions hereof the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including

interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance, and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which an Excise Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

If, after the receipt by the Executive of an amount advanced by the Company pursuant hereto, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant hereto, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of

Excise Gross-Up Payment required to be paid.

(f) Death Benefit. Notwithstanding any other provision of this Agreement, this Agreement shall terminate on the date of the Executive's death. In such event the Company shall pay Executive's Base Compensation to her husband, if he survives her, or, if he does not survive her, to her estate, through the termination date. In addition, the Company shall pay to Executive's husband, if he survives her, or, if he does not survive her, to her estate, the Pro Rata Share of any Incentive Compensation to which Executive would have been entitled for the year in which such death occurs.

(g) Termination Payment. In the event Company does not elect to extend the Employment Term as provided for in Section 2 hereof, in consideration for the post-employment covenant against competition set forth in Section 10 hereof, the Executive shall be entitled to a lump-sum payment equal to the product of twelve times the Monthly Salary Amount.

(h) Payment. Except as otherwise provided in this Agreement, any payments to which the Executive shall be entitled under this Section 8, including, without limitation, any economic equivalent of any benefit, shall be made as promptly as possible following the date of termination. If the amount of any payment due to the Executive cannot be finally determined within 90 days after the Date of Termination, such amount shall be estimated on a good faith basis by the Company and the estimated amount shall be paid no later than 90 days after such Date of Termination. As soon as practicable hereafter, the final determination of the amount due shall be made and any adjustment requiring a payment to or from the Executive shall be made as promptly as practicable.

(i) No Mitigation. The Executive shall not be required to mitigate the amount of any payments provided for by this Agreement by seeking employment or otherwise, nor shall the amount of any payment or benefit provided in this Agreement be reduced by any compensation or benefit earned by the Executive after termination of her employment.

9. Company Property. All advertising, promotional, sales, suppliers, manufacturers and other materials or articles or information, including without limitation data processing reports, customer lists, customer sales analyses, invoices, product lists, price lists or information, samples, or any other materials or data of any kind furnished to the Executive by the Company or developed by the Executive on behalf of the Company or at the Company's direction or for the Company's use or otherwise in connection with the Executive's employment hereunder, are and shall remain the sole and confidential property of the Company; if the Company requests the return of such materials at any time during or at or after the termination of the Executive's employment, the Executive shall immediately deliver the same to the Company.

10. Covenant Not To Compete.

(a) Covenants Against Competition. The Executive acknowledges that as of the execution of this Employment Agreement (i) the Company is engaged in the business of providing sales and marketing and marketing research services to the pharmaceutical and biotechnology industries and in the sale of pharmaceutical and biotechnology products (the "Business"); (ii) the Company's Business is conducted currently throughout the United States and may be expanded to other locations; (iii) her employment with the Company will have given her access to confidential information concerning the Company; and (iv) the agreements and covenants contained in this

Agreement are essential to protect the business and goodwill of the Company. Accordingly, the Executive covenants and agrees as follows:

(i) Non-Compete. Without the prior written consent of the Board of the Company, the Executive shall not during the Restricted Period (as defined below) within the Restricted Area (as defined below) (except in the Executive's capacity as an officer of the Company or any of its affiliates), (a) engage or participate in the Business; (b) enter the employ of, or render any services (whether or not for a fee or other compensation) to, any person engaged

in the Business; or (c) acquire an equity interest in any such person; provided, that the foregoing restrictions shall not apply at any time if the Executive's employment is terminated during the Term by the Executive for Good Reason (as defined in Section 8(b) below) or by the Company other than for "Cause"; provided, further, that during the Restricted Period the Executive may own, directly or indirectly, solely as a passive investment, securities of any company traded on any national securities exchange or on the National Association of Securities Dealers Automated Quotation System.

As used herein, "Restricted Period" shall mean the period commencing on the Commencement Date and ending on the second anniversary of the Executive's termination of employment.

"Restricted Area" shall mean any place within the United States and any other country in which the Company is then actively considering conducting Business.

(b) Confidential Information; Personal Relationships. The Executive acknowledges that the Company has a legitimate and continuing proprietary interest in the protection of its confidential information and has invested substantial sums and will continue to invest substantial sums to develop, maintain and protect confidential information. The Executive agrees that, during and after the Restricted Period, without the prior written consent of the Board, the Executive shall keep secret and retain in strictest confidence, and shall not knowingly use for the benefit of himself or others all confidential matters relating to the Company's Business including, without limitation, operational methods, marketing or development plans or strategies, business acquisition plans, joint venture proposals or plans, and new personnel acquisition plans, learned by the Executive heretofore or hereafter (such information shall be referred to herein collectively as "Confidential Information"); provided, that nothing in this Agreement shall prohibit the Executive from disclosing or using any Confidential Information (A) in the performance of her duties

hereunder, (B) as required by applicable law, (C) in connection with the enforcement of her rights under this Agreement or any other agreement with the Company, or (D) in connection with the defense or settlement of any claim, suit or action brought or threatened against the Executive by or in the right of the Company. Notwithstanding any provision contained herein to the contrary, the term Confidential Information shall not be deemed to include any general knowledge, skills or experience acquired by the Executive or any knowledge or information known or available to the public in general. Moreover, the Executive shall be permitted to retain copies of, or have access to, all such Confidential Information relating to any disagreement, dispute or litigation (pending or threatened) involving the Executive.

(c) Employees of the Company and its Affiliates. During the Restricted Period, without the prior written consent of the Board of the Company, the Executive shall not, directly or indirectly, hire or solicit, or cause others to hire or solicit, for employment by any person other than the Company or any affiliate or successor thereof, any employee of, or person employed within the two years preceding the Executive's hiring or solicitation of such person by, the Company and its affiliates or successors or encourage any such employee to leave her employment. For this purpose, any person whose employment has been terminated involuntarily by the Company shall be excluded from those persons protected by this Section for the benefit of the Company.

(d) Business Relationships. During the Restricted Period, the Executive shall not, directly or indirectly, request or advise a person that has a business relationship with the Company to curtail or cancel such person's business relationship with the Company.

(e) Rights and Remedies Upon Breach. If the Executive breaches, threatens to commit a breach of, any of the provisions contained in Section 10 of this Agreement (the "Restrictive Covenants"), the Company shall have the following rights and remedies, each of which rights and remedies shall be independent of the others and severally enforceable, and each of which is in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity.

(i) Specific Performance. The right and remedy to have the

Restrictive Covenants specifically enforced by any court of competent jurisdiction, it being agreed that any breach or threatened breach of the Restrictive Covenants would cause irreparable injury to the Company and that money damages would not provide an adequate remedy to the Company.

(ii) Accounting. The right and remedy to require the Executive to account for and pay over to the Company all compensation, profits, monies, accruals, increments or other benefits derived or received by the Executive as the result of any action constituting a breach of Restrictive Covenants.

(f) Severability of Covenants. The Executive acknowledges and agrees that the Restrictive Covenants are reasonable and valid in duration and geographical scope and in all other respects. If any court determines that any of the Restrictive Covenants, or any part thereof, is invalid or unenforceable, the remainder of the Restrictive Covenants shall not thereby be affected and shall be given full effect without regard to the invalid portions. The provisions set forth in Section 10 above shall be in addition to any other provisions of the business conduct and ethics policy applicable to employees of the Company and its subsidiaries during the term of Executive's employment.

(g) Saving Clause. If the period of time or the area specified in subsection (a) above should be adjudged unreasonable in any proceeding, then the period of time shall be reduced by such number of months or the area shall be reduced by the elimination of such portion thereof or both so that such restrictions may be enforced in such area and for such time as is adjudged to be reasonable. If the Executive violates any of the restrictions contained in the foregoing subsection (a), the restrictive period shall not run in favor of the Executive from the time of the commencement of any such violation until such time as such violation shall be cured by the Executive to the satisfaction of Company.

11. Executive's Representation and Warranties. Executive represents and warrants that she has the full right and authority to enter into this Agreement and fully perform her obligations hereunder, that she is not subject to any non-competition agreement other than with the Company, and that her past, present and anticipated future activities have not and will not infringe on the proprietary rights of others. Executive further represents and warrants that she is not obligated under any contract (including, but not limited to, licenses, covenants or commitments of any nature) or other agreement or subject to any judgment, decree or order of any court or administrative agency which would conflict with her obligation to use her best efforts to perform her duties hereunder or which would conflict with the Company's business and operations as presently conducted or proposed to be conducted. Neither the execution nor delivery of this Agreement, nor the carrying on

of the Company's business as officer and employee by Executive will conflict with or result in a breach of the terms, conditions or provisions of or constitute a default under any contract, covenant or instrument to which Executive is currently a party.

12. Miscellaneous.

(a) Integration; Amendment. This Agreement constitutes the entire agreement between the parties hereto with respect to the matters set forth herein and supersedes and renders 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 this Agreement shall be binding unless in writing and signed by both parties.

(b) Severability. If any part of this Agreement is contrary to, prohibited by, or deemed invalid under applicable law or regulations, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited, or invalid, but the remainder of this Agreement shall not be invalid and shall be given full force and effect so far as possible.

(c) Waivers. The failure or delay of any party at any time to require performance by the other party of any provision of this Agreement, even

if known, shall not affect the right of such party to require performance of that provision or to exercise any right, power, or remedy hereunder, and any waiver by any party of any breach of any provision of this Agreement shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself, or a waiver of any right, power, or remedy under this Agreement. No notice to or demand on any party in any case shall, of itself, entitle such party to other or further notice or demand in similar or other circumstances.

(d) Power and Authority. The Company represents and warrants to the Executive that it has the requisite corporate power to enter into this Agreement and perform the terms hereof; that the execution, delivery and performance of this Agreement by it has been duly authorized by all appropriate corporate action; and that this Agreement represents the valid and legally binding obligation of the Company and is enforceable against it in accordance with its terms.

(e) Burden and Benefit; Survival. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, personal and legal representatives, successors and assigns. In addition to, and not in limitation of, anything contained in

this Agreement, it is expressly understood and agreed that the Company's obligation to pay Termination Compensation as set forth herein shall survive any termination of this Agreement.

(f) 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. Headings and titles herein are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

(g) Arbitration; Remedies. Any dispute or controversy arising under this Agreement or as a result of or in connection with Executive's employment (other than disputes arising under Section 10) shall be arbitrated and settled pursuant to the National Rules for the Resolution of Employment Disputes of the American Arbitration Association which are then in effect in a proceeding held in Bergen County, New Jersey. This provision shall also apply to any and all claims that may be brought under any federal or state anti-discrimination or employment statute, rule or regulation, including, but not limited to, claims under: the National Labor Relations Act; Title VII of the Civil Rights Act; Sections 1981 through 1988 of Title 42 of the United States Code; the Employee Retirement Income Security Act; the Immigration Reform and Control Act; the Americans With Disabilities Act; the Age Discrimination in Employment Act; the Fair Labor Standards Act; the Occupational Safety and Health Act; the Family and Medical Leave Act; and the Equal Pay Act. The decision of the arbitrator and award, if any, is final and binding on the parties and the judgment may be entered in any court having jurisdiction thereof. The parties will agree upon an arbitrator from the list of labor arbitrators supplied by the American Arbitration Association. The parties understand and agree, however, that disputes arising under Section 10 of this Agreement may be brought in a court of law or equity without submission to arbitration.

(h) Jurisdiction. Except as otherwise provided for herein, each of the parties (a) 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 proceeding

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 and in the manner provided for giving of notices in Section 12(i). Nothing in this Section, however, shall affect the right of any party to serve legal process in any other manner permitted by law.

(i) Notices. All notices called for under this Agreement shall be in writing and shall be deemed given upon receipt if delivered personally or by confirmed facsimile transmission and followed promptly by mail, or mailed by registered or certified mail (return receipt requested), postage prepaid, to the parties at their respective addresses (or at such other address for a party as shall be specified by like notice; provided that notices of a change of address shall be effective only upon receipt thereof) as set forth in the preamble to this Agreement or to any other address or addressee as any party entitled to receive notice under this Agreement shall designate, from time to time, to others in the manner provided in this subsection 12(i) for the service of notices.

Any notice delivered to the party hereto to whom it is addressed shall be deemed to have been given and received on the day it was received; provided, however, that if such day is not a business day then the notice shall be deemed to have been given and received on the business day next following such day. Any notice sent by facsimile transmission shall be deemed to have been given and received on the business day next following the day of transmission.

(j) Number of Days. In computing the number of days for purposes of this Agreement, all days shall be counted, including Saturdays, Sundays and holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday or holiday on which federal banks are or may elect to be closed, then the final day shall be deemed to be the next day which is not a Saturday, Sunday or such holiday.

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

BETH JACOBSON

PDI, INC.

By:

Charles T. Saldarini
Chief Executive Officer

EXHIBIT 10.13

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EXCLUSIVE LICENSE AGREEMENT FOR TOSTREX(TM)

BETWEEN

PDI, INC.

AND

CELLEGY PHARMACEUTICALS, INC.

==========

[*] designates portions of this document that have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

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Page

EXHIBIT A - REPORTING OF ADVERSE DRUG EVENTS

EXHIBIT B - MINIMUM SALES REQUIREMENTS

EXHIBIT C - PATENT RIGHTS

EXHIBIT D - OTHER TESTOSTERONE PRODUCTS

EXHIBIT E - BURDENED COSTS

EXHIBIT F - TRADEMARKS

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EXCLUSIVE LICENSE AGREEMENT

THIS EXCLUSIVE LICENSE AGREEMENT (this "Agreement") is made and entered into as of December 31st, 2002 (the "Effective Date"), by and between Cellegy Pharmaceuticals, Inc., a California corporation ("Cellegy"), and PDI, Inc., a Delaware corporation ("Licensee").

W I T N E S S E T H:
- - - - - - - - - -

WHEREAS, Cellegy owns or possesses certain intellectual property rights current and pending with respect to the Licensed Product (as hereinafter defined) and certain rights pertaining to the Trademark (as hereinafter defined);

WHEREAS, Licensee desires to obtain an exclusive license to certain rights current and pending to the Licensed Product under such intellectual property rights, and to the Trademark within the Territory (as hereinafter defined);

WHEREAS, Cellegy is willing to grant an exclusive license to Licensee under such current and pending intellectual property rights, and is willing to grant an exclusive license to the Trademark to Licensee, each within the Territory, all as more particularly described in, and subject to the terms and conditions of, this Agreement.

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter set forth and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually agree as follows:

ARTICLE 1
DEFINITIONS

As used in this Agreement, the following terms, whether used in the singular or the plural, shall have the following meanings:

"Affiliates" shall mean, with respect to any party, any person, which, directly or indirectly, is controlled by, controls or is under common control with such party. For purposes of this definition, the term control (including with correlative meanings, the terms controlled by and under common control with) means having the power, whether held directly or indirectly and by whatever means (and whether or not enforceable at law or in equity) to:

(i) exercise or control the right to vote attached to 50% or more of the issued shares in the party;

(ii) dispose of or exercise a right of disposal in respect of 50% or more of the issued voting shares in the party;

(iii) appoint one half or more of the number of directors to the board of the party; or

(iv) determine substantially the conduct of the party's business activities.

"Agreement" means this Exclusive License Agreement.

"Approvals" are registration approvals, registrations or authorizations provided by the Relevant Regulatory Authority in the Territory for the manufacturing, importation, storage, promotion, sale or distribution of the Licensed Product.

"Auditor" shall mean an independent public accountant and auditor that has not been employed or had been employed by Licensee, Cellegy or PanGeo and possesses no beneficial ownership of Cellegy, Licensee or PanGeo.

"Cellegy Information" means the technical and clinical information concerning the Licensed Product that is developed by Cellegy or licensed in by Cellegy (with the right to grant sublicense rights to Licensee), and that is included in the new drug application filed with the FDA, and Cellegy's European common technical document format, and which may include, without limitation, data in support of registered indications, bioequivalency data and information, clinical data, pharmaco-toxicological data, analytical methods, stability and pharmaceutical data concerning the Licensed Product, Know How, and any other related supporting documentation in the possession of Cellegy from time to time relating to such package.

"Dollars" or "$" means United States dollars.

"Defective Product" means any condition that violates the warranty defined in Section 7.9 or conditions to the Licensed Product in packaging or utility that prevents it from being sold to a Third Party up to and including any FDA concerns with compliance to regulatory and manufacturing guidelines.

"Exclusive License" means a license whereby Licensee's rights in the Licensed Product in the Territory shall be sole and exclusive and shall operate to exclude all others, including Cellegy.

"Effective Date" means the date set forth at the beginning of this Agreement.

"FDA" means the United States Food and Drug Administration, or any successor entity thereto.

"FD&C Act" means the Federal Food, Drug and Cosmetic Act, as amended.

"Good Manufacturing Practice" means manufacturing practices in conformity with the FDA's regulations and regulatory interpretations of such regulations covering good manufacturing practices set forth in the FD&C Act and any other applicable law or regulation, as such regulations may be amended and interpreted by the appropriate government authorities from time to time.

"Improved Product" means any and all new developments or versions of the Licensed Product delivered to Licensee under this Agreement.

"Intellectual Property Rights" means all rights and interests, current and pending, vested or arising out of any industrial or intellectual property, whether protected at common law or under statute, which includes (without limitation) the Proprietary Rights, Patent Rights and Know-How and any rights and interests in inventions (both patentable and unpatentable), patents, copyrights, moral rights, designs (whether registered or unregistered), trade marks (whether registered or unregistered), trade secrets, goodwill, samples, materials, data, know-how, results and Confidential Information.

"Joint Manufacturing Committee" means a committee consisting of two designees of each of Cellegy and Licensee; such committee shall work jointly to manage the process of supplying the Licensed Product to the License, as further set forth in Section 7.1(a).

"Launch Date" means the date upon which the first arms length commercial sale of the Licensed Product in finished product form, packaged and labeled for sale to a Third Party in the Territory occurs after securing regulatory Approval

required to promote, manufacturer, sell, and distribute the Licensed Product in the applicable country in the Territory.

"Loss" means any and all loss, liability, damage, fee, cost, (including without limitation actual reasonable court costs and reasonable attorneys' fees regardless of outcome) expense, suit, claim, demand, judgment and prosecution.

"Licensed Product" means the testosterone based transdermal gel product for the treatment of male hypogonadism and low levels of testosterone in men developed by Cellegy and generally referred to as Tostrex(TM) testosterone gel.

"Know-How" means any technology or information developed by Cellegy or licensed in by Cellegy (with the right to grant sub-license rights to the Licensee) used for manufacturing or formulating the Licensed Product or in exercise of the rights granted to Licensee hereunder, including, but not limited to: manufacturing data; formulation or production technology; methods of synthesis, isolation and purification methods and other manufacturing information and any proprietary reagents and other materials required to manufacture the Licensed Product; and any data developed by Cellegy related to pharmacology, toxicology, pathology, clinical data, results of clinical efficacy studies, clinical effects and indications for use of the Licensed Product.

"Net Sales" means the gross sales of a Licensed Product that is due, or otherwise received by, Licensee, or its Affiliates or its Sublicensees from Third Party customers for such Licensed Product, less:

(i) reasonable credited allowances actually granted to such Third Party customers for spoiled, damaged, rejected, recalled, outdated and returned Licensed Product and for reasonable retroactive price reductions,

(ii) the amounts of reasonable trade, quantity and cash discounts actually allowed, to the extent such trade, quantity and cash discounts are specifically allowed on account of the purchase of such Licensed Product,

(iii) sales taxes, excise taxes, use taxes and import/export duties and any other government charges (other than taxes on income) actually due or incurred in connection with the manufacture, use or sales of the Licensed Product to any Third Party, and

(iv) reasonable allowances, adjustments, reimbursements, discounts, chargebacks and rebates actually granted to Third Parties, including, but not limited to, rebates given to health care organizations or other Third Parties, and any bona fide payment made in respect of any sales of Licensed Product to any governmental or quasi-governmental body or agency, whether during the actual royalty period or not.

"Patent Rights" means: (i) the patents and patent applications listed in Exhibit C hereto and any patents and patent applications existing as of the Effective Date but inadvertently omitted from Exhibit C; (ii) any patent or patent application hereafter which is acquired by Cellegy or under which Cellegy becomes licensed and with the right to sublicense to Licensee, during the term of this Agreement, in each

case of (i) and (ii) above relating to the Licensed Product, its manufacture, use or sale, including methods of use and screening or processes that use the Licensed Product; (iii) any divisions, continuations and continuations-in-part defined in (i) or (ii); (iv) any extension, renewal or reissue or a patent identified in (i), (ii) or (iii); and (v) any continuation, continuation-in-part, or divisional or any patent application and any reissue or reexamination of any patent or patent application identified in (i) through (iv), in each case, to the extent that such items relate to the Licensed Product its manufacture, use or sale including methods of use and screening or processes that use the Licensed Product. Such items set forth in subitems (i) through (iv) will be identified and added by the parties to Exhibit C from time to time during the term of this Agreement.

"Proprietary Rights" means all of Cellegy's Intellectual Property Rights and interests in, to, or covering the Licensed Product, or the manufacture, use or sale, including methods of use and screening, or processes, that use the Licensed Product, to the extent that such Intellectual Property Rights are of such legal status and nature as to permit the same to be lawfully licensed and, without limiting the generality thereof, specifically include unpatented inventions, ideas, data, Know-How, technology, trade secrets and Confidential Information; but only to the extent that the foregoing relate to the Licensed Product within the scope of the License granted under this Agreement.

"Relevant Regulatory Authority", in relation to a country or region in the Territory, means the governmental authority, whether Federal, State or municipal, regulating the use, importation, manufacture, marketing, sale and/or distribution of therapeutic substances and the grant of Approvals in such country or region.

"Territory" means the United States, its territories, Puerto Rico, Mexico and Canada.

"Third Party" means any party other than Cellegy or Licensee, or Licensee's Affiliates or Sublicensees, or Cellegy's Affiliates or sublicensees.

"Trademark" means Tostrex (R) and any other trademark developed or acquired by Cellegy for use in connection with the sale of the Licensed Product in the Territory, as further set forth in Exhibit F.

"Sublicensee" means any person to whom Licensee sublicenses the rights, or any portion thereof, granted by Licensee pursuant to Section 3.1 hereof.

ARTICLE 2
REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties of Cellegy. cellegy hereby represents and warrants to Licensee that:

(a) Cellegy is a corporation duly incorporated, validly existing and in good standing under the laws of the State of California, with the corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of Cellegy. This Agreement has been duly executed and delivered by Cellegy and constitutes the valid, binding and enforceable obligation of Cellegy, subject to applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and to general principles of equity.

(b) Cellegy is not subject to, or bound by, any provision of: (i) its articles of incorporation or by-laws, (ii) any mortgage, deed of trust, lease, note, shareholders' agreement, bond,

indenture, license, permit, trust, custodianship, or other instrument, agreement or restriction, or (iii) any judgment, order, writ, injunction or decree of any court, governmental body, administrative agency or arbitrator, that would prevent, or be violated by, or under which there would be a default as a result of, nor is the consent of any person required for, the execution, delivery and performance by Cellegy of this Agreement and the obligations contained herein, including without limitation, the grant to Licensee of the license described in Article 3.1 hereof.

(c) Cellegy is the exclusive owner of all right, title and interest in the Patent Rights that have been granted in the applicable countries in the Territory, the claims in the patents included in the Patent Rights are valid and enforceable, and the patent applications included in the Patent Rights have been duly filed and contain no material errors. Attached hereto as Exhibit C is a complete and accurate list of all patents and patent applications included in the Patent Rights as of the Effective Date.

(d) Cellegy is the exclusive owner of all right, title and interest in the Trademark in the Territory, and has taken those measures reasonably

necessary to secure its interest in the Trademark. Attached hereto as Exhibit F is a complete and accurate list of all trademarks and trademark applications included in the Trademark, and their status, as of the Effective Date.

(e) Cellegy has taken reasonable measures to protect the confidentiality of the Know-How. On occasions where Cellegy has granted access to Third Parties with respect to material elements of either the Know-How or the confidential information concerning the Licensed Product, to the best of Cellegy's knowledge, such access has been granted pursuant to an enforceable confidentiality agreement that has not been materially breached by the appropriate Third Party.

(f) To the best of Cellegy's knowledge, as of the Effective Date, neither the manufacture, use or sale of the Licensed Product or the practice of any of the inventions included in the Patent Rights nor the use of the Know-How by Licensee as contemplated by this Agreement infringes upon any Third Party's know-how, patent or other intellectual property rights in the Territory.

(g) To the best of Cellegy's knowledge, there is no Third Party using or infringing any or all of the Patent Rights or the Trademark in derogation of the rights granted to Licensee in this Agreement.

(h) Cellegy has obtained the assignment of all interests of all rights of Cellegy's employees, and to the best of its knowledge, Cellegy has obtained the assignment of all interests and all rights of any and all other Third Parties with respect to the Patent Rights and to the Trademark. To the best of Cellegy's knowledge, Cellegy has obtained all interests and all rights of any and all Third Parties (including, but not limited to Cellegy's employees) with respect to confidential or proprietary portions of the Know-How.

(i) To the best of Cellegy's knowledge, there is no interference or opposition actions or litigations pending or any communication, which threatens interference or opposition actions, or other litigation before any patent and trademark office, court or any other governmental entity in any jurisdiction in regard to the Patent Rights or the Trademark.

(j) Cellegy represents and warrants that, to the best of its knowledge, it has furnished or will furnish (in accordance with the terms of this Agreement) to Licensee all of the Know-How which Cellegy owns or possesses.

(k) Nothing has come to the attention of Cellegy which would indicate the existence of any material side effect, toxicity effect, carcinogenicity effect, adverse effect or any instances of

deleterious physical effects or reactions resulting from, or alleged to result from, the Licensed Product, which are not identified in the Know-How delivered to the Licensee under this Agreement, or which has not been otherwise disclosed to the Licensee by Cellegy.

(l) Cellegy has or will maintain access to manufacturing facilities capable of producing a sufficient quantity of the Licensed Product, under Good Manufacturing Practices, to meet market demand.

(m) Cellegy, its Affiliates and sublicensees, and their respective employees, agents and contractors, will manufacture the Licensed Product under Good Manufacturing practices, in compliance with all applicable laws, statues, rules and regulations.

(n) Cellegy, its Affiliates and sublicensees will manufacture, transport, distribute and dispose, if applicable, of the Licensed Product in compliance with all applicable laws, statues, rules and regulations.

(o) Cellegy shall provide Licensee promptly in writing all adverse events and safety data that Cellegy or its Affiliates or sublicensees obtain concerning the Licensed Product and Improved Products.

2.2 Representations and Warranties of Licensee. Licensee hereby represents and warrants to Cellegy:

(a) that Licensee is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, with the corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of Licensee. This Agreement has been duly executed and delivered by Licensee and constitutes the valid, binding and enforceable obligation of Licensee, subject to applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and to general principles of equity.

(b) the compliance of its Affiliates, and Sublicensees with this Agreement and obligations such Affiliates and Sublicensees may have to Cellegy, including, but not limited to payment of any fees or royalties.

ARTICLE 3
GRANT OF LICENSE

3.1 Grant. Cellegy hereby grants to Licensee an Exclusive License, with a right to sublicense as set forth herein, under all of Cellegy's Intellectual Property Rights to make or have made, manufacture, market, use, offer for sale, import and export Licensed Product within the Territory, and to use Cellegy's Intellectual Property Rights in connection with the storage, promotion, sale and distribution of Licensed Product and obtaining any Approvals under Section 13. Licensee's rights to the Licensed Product and the Intellectual Property Rights are limited to those expressly granted, and all others are reserved to Cellegy.

3.2 Addition to the Territory. The parties may mutually agree to add to the Territory other countries and their respective territories and principalities.

3.3 Restrictions on Territory. Licensee will use its commercially reasonable efforts not to knowingly directly distribute or otherwise make available Licensed Product outside the Territory or

knowingly sell, distribute or otherwise make available Licensed Product to persons for the purpose of resale or distribution outside the Territory, exclusive of government, or military customers, and (inside the Territory) for charitable organizations. Without limiting the foregoing, Licensee agrees to use all reasonable commercial efforts to ensure compliance with the preceding sentence, including (i) placing appropriate notices on the labels on Licensed Products, and (ii) enforcing the foregoing restrictions against any Third Party to which Licensee, or any Affiliate of Licensee, sells Licensed Products that Licensee learns is violating such restriction and stop selling or distributing Licensed Products to such Third Party. Cellegy agrees that in any other licenses to Third Parties to distribute the Licensed Product outside the Territory, and in any manufacturing and distribution of the Licensed Product on its own account, Cellegy will institute materially similar restrictions to those set forth in this Section 3.3.

3.4 Right to sub-license in the Territory. Subject to Section 3.5 below, Licensee may sub-license any of its rights or obligations under this Agreement, directly or indirectly, in whole or in part:

(a) to third parties, provided the third party agreement does not impact on Sections 3.3, 3.7, Article 4 and Article 5 hereof, and that Licensee gives Cellegy reasonable prior notice of such an arrangement, and will consider Cellegy's advice about such third parties in good faith; and

(b) to any of its Affiliates that are engaged primarily in the business of distribution of pharmaceutical products, as Licensee sees fit; provided that any such Third Party or Affiliate must agree in writing with Cellegy, in form and substance reasonably satisfactory to Cellegy, to be bound by the provisions of this Agreement.

3.5 [*]

3.6 Marketing Effort. Licensee agrees to exert its best reasonable efforts, consistent with the profit opportunity relative to other products in Licensee's pipeline and market conditions in the Territory to introduce and diligently promote, sell and service the Licensed Product within the Territory, including, without limitation, the full and complete attainment of the Minimum Sales Requirements as set forth below in Section 3.7.

3.7 Maintenance of Exclusivity.

(a) [*]

(b) [*]

3.8 Covenant Not To Compete. Cellegy hereby covenants and agrees that, for the term of this Agreement, Cellegy shall not, nor shall it permit any of its affiliates, nor any of their respective officers, employees, agents, or wholly owned subsidiaries, nor authorize any of its Affiliates, directors, or Sublicensees to, individually or jointly with other persons, manufacture, develop, test, sell, market or distribute any product within the Territory which contains testosterone for the treatment of male hypogonadism.

3.9 Notice Regarding other Testosterone Product Deals. Cellegy hereby covenants and agrees to provide Licensee with prompt written notice in the event that Cellegy executes a license agreement, development agreement or other collaboration agreement with respect to the development, marketing or distribution of any testosterone products within the Territory.

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[*] designates portions of this document that have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

ARTICLE 4
LICENSE FEE AND RELATED PAYMENTS

4.1 License Fee. As consideration of the rights granted to Licensee by Cellegy under Article 3 and Section 8.4 hereof, Licensee shall pay Cellegy Fifteen Million Dollars ($15,000,000) in cash on the Effective Date Cellegy hereby agrees to use its commercially reasonable efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary to expeditiously as possible seek all FDA Approvals for the Licensed Product required to manufacture, label, promote, sell and distribute the Licensed Product in the United States, and acknowledges that obtaining FDA Approval for the Licensed Product is a primary corporate priority.

4.2 Milestone Payment. Licensee shall pay Cellegy a milestone payment of ten million dollars ($10,000,000) in cash no later than thirty (30) days after Cellegy certifies in writing to Licensee that the Licensed Product has all FDA Approvals required to promote, sell and distribute the Licensed Product in the United States.

4.3 Fee Conditions. Each and every payment made under this Article 4 shall be independent, non-refundable and shall not be considered an advance or credit on any royalties or other obligation received or owed.

ARTICLE 5
ROYALTIES AND PAYMENTS FOR ORDERED GOODS

5.1 Royalties in General. In consideration of the exclusive license granted to Licensee hereunder, Licensee shall pay or cause to be paid to Cellegy the Royalty set forth in this Section 5.

5.2 Royalty Defined. The "Royalty" shall be equal to the following amounts:

(a) [*]

(b) [*]

(c) [*]

(d) [*]

5.3 Burdened Costs. In addition to the Royalty set forth above, for so long as Licensee purchases Licensed Product from Cellegy, Licensee will pay Cellegy the Burdened Cost, as set forth pursuant to Exhibit E hereof, which is subject to adjustment at the end of each calendar year to reflect actual costs incurred during such year, as reviewed by the Joint Manufacturing Committee. Such adjustment (if necessary) will be communicated by Cellegy to Licensee during the first calendar quarter of the subsequent year together with a payment representing a refund of an overpayment by Licensee, or an invoice for any shortfall in payments by Licensee. For each order of Licensed Product under Section 7, Licensee will pay Cellegy the Burdened Costs within thirty (30) days of the receipt of the invoice for such order.

5.4 Minimum Royalty.

(a) [*]

(b) [*]

(c) [*]

ARTICLE 6
ROYALTY REPORTS AND ACCOUNTING

6.1 Quarterly Royalty Reports; Records. During the term of this Agreement after the Launch Date of the Licensed Product, Licensee shall furnish or cause to be furnished to Cellegy within a thirty (30) day period from the end of a calendar quarter a written report or reports (the "Royalty Report") covering the preceding calendar quarter (each such quarter being sometimes referred to herein as a "royalty period") showing:

(a) the Net Sales of the Licensed Product in each country of the Territory during the royalty period;

(b) the Royalties, payable in Dollars, which shall have accrued hereunder in respect to such Net Sales; and

(c) the exchange rate used in determining the amount of Dollars.

With respect to sales of Licensed Product invoiced in Dollars, the Net Sales and royalty payable shall be expressed in Dollars. With respect to sales of Licensed Product invoiced in a currency other than Dollars, the Net Sales and royalty payable shall be expressed in the domestic currency of the country where such sale was made together with the Dollar equivalent of the royalty payable, calculated using the exchange rates normally used by Licensee in its management and financial reporting, provided, however, that the exchange rates used by Licensee in preparation of the Royalty Report shall not be materially different from the exchange rates posted in the Wall Street Journal published on the last day of such royalty period. Royalty Reports shall be due on the thirtieth (30th) day following the close of each respective royalty period. Licensee, and its Affiliates and Sublicensees shall keep contemporaneous, legible, verifiable and accurate records in sufficient detail to enable the royalties payable hereunder to be determined and substantiated. A final Royalty Report shall be due upon the expiration or termination of this Agreement. Licensee agrees that it shall pay all Royalties otherwise owed during a particular royalty period hereunder, which are allowable by the law, provided that any restrictions that may be imposed by the government of any applicable country in the Territory regarding the payment of royalties to companies outside of said countries shall not eliminate Licensee's overall obligation to pay Royalties owed, either from Licensee's headquarters or elsewhere.

6.2 Payment Due Dates. Royalties shown to have accrued by each royalty report provided for under Article 6 of this Agreement shall be due and payable

on the date such Royalty Report is due. Payment of royalties in whole or in part may be made in advance of such due date. All royalty and other payments due to Cellegy hereunder, shall be made in Dollars, delivered to the account(s) specified by Cellegy from time to time.

6.3 Right to Audit Licensee.

(a) Upon the written request of Cellegy, at Cellegy's expense and not more than twice in each year, Licensee and its Affiliates shall permit an Auditor selected by Cellegy to have access during normal business hours to those records of Licensee and its Affiliates as may be reasonably necessary to verify the accuracy of the Royalty Reports furnished by Licensee hereunder in respect of any year ending not more than one (1) year following the end of any Licensee fiscal year, the calculation of royalties payable to respect of such year shall be binding and conclusive upon Cellegy and Licensee and

its Affiliates shall be released from any liability or accountability with respect to royalties for such fiscal year. Cellegy's Auditors will provide a copy of their audit to Licensee at the time it provides it to Cellegy.

(b) Licensee shall include in each written sublicense granted by it pursuant to this Agreement a provision requiring the Sublicensee to keep and maintain records of sales made pursuant to such Sublicense and to grant access to such records by Cellegy's Auditor subject to the same terms and conditions as stated in Article 6.3(a) hereof.

(c) [*]

6.4 Right to Audit Cellegy. Upon the written request of Licensee, at Licensee's expense and not more than twice in each year, Cellegy and its Affiliates shall permit an Auditor selected by Licensee to have access during normal business hours to those records of Cellegy as may be reasonably necessary to verify the accuracy of the Burdened Costs furnished by Cellegy hereunder in respect of any year ending not more than one (1) year following the end of Cellegy's fiscal year, the calculation of Burdened costs payable to respect of such year shall be binding and conclusive upon Licensee, its Affiliates and Cellegy shall be released from any liability or accountability with respect to royalties for such fiscal year. Licensee's auditors will provide a copy of their audit to Cellegy at the time it provides it to Licensee.

6.5 Overpayment or Underpayment of Burdened Costs. [*]

6.6 Disagreement with Auditor Findings. If either party hereto disagrees with the determination made above by the Auditor and such disagreement over the amount in question is in excess of $1,000,000, then the party who disagrees with such amount shall (i) provide written notice to the other party within thirty days, (iii) discuss such disagreement with the other party hereto; and (iii) reserve all rights under Section 16.17 (Dispute Resolution) and Article 12 (Term and Termination) hereof.

ARTICLE 7
SUPPLY OF LICENSED PRODUCT BY CELLEGY

7.1 Purchasing Commitment. [*]

(a) CONFIDENTIAL]

(b) [*]

(c) [*]

(d) [*]

7.2 Forecasts and Ordering Procedure.

(a) Within sixty (60) days after the Effective Date, Licensee will

provide to Cellegy an initial sales forecast for orders of the Licensed Product by Licensee for the following year ("Forecast"). Thereafter, commencing on the first day of the following calendar quarter, and each calendar quarter thereafter during the term of the Purchase Commitment, Licensee will provide a rolling three month update to the Forecast. The Forecasts will be deemed nonbinding estimates.

(b) Purchases and sales of the Licensed Product between Licensee and Cellegy under this Agreement shall be made by means of purchase orders (the "Orders") submitted from time to time by

[*] designates portions of this document that have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

Licensee to Cellegy, specifying, among other things, the number of units of each Licensed Product ordered under each Order, and the desired date and place of delivery (the "Delivery Date"). The terms and provisions of this Agreement shall govern and control each Order submitted by Licensee to Cellegy, and any different terms or provisions contained in any such Order shall have no force and affect whatsoever.

7.3 Orders. In order to facilitate manufacturing planning requirements:

(a) [*]

(b) [*]

(c) [*]

7.4 Production and Supply of Licensed Product. During the term of this Agreement or thereafter, Cellegy reserves the right after Joint Manufacturing Committee approval, to manufacture, produce, assemble, warehouse or source the Licensed Product at any worldwide location, including locations outside of the United States of America and locations within or outside the Territory. Subject to the remainder of this Agreement, Cellegy will use reasonable commercial efforts to provide an adequate supply of raw materials to the manufacturer of Licensed Product in order to fulfill its obligations under this Agreement and supply the Licensed Product to Licensee in accordance with the Orders. Cellegy agrees to solicit and to allow Licensee's input and advice on manufacturing issues that may arise from time to time in relation to the Licensed Product and will not take any intentional action with regard to the manufacturing of the Licensed Product that will materially disadvantage Licensee's ability to use, promote or sell the Licensed Product.

7.5 Defective Product

(a) If Licensee notifies Cellegy within forty-five (45) days of the receipt of any shipment of the Licensed Product and Licensee believes any of the Licensed Product does not conform to the warranties for the Licensed Product set out in Section 7.9 (the "Defective Product") the parties agree to consult with each other in order to resolve the issue. If a recall is the basis of FDA directives, Cellegy will cooperate fully and expediently to assist Licensee in meeting the objections and concerns of the FDA.

(b) If such consultation does not resolve the discrepancy within a further forty-five (45) days from receipt of the notice, the parties agree to nominate promptly an independent analyst, reasonably acceptable to both parties (the "Independent Analyst"), that will carry out tests on representative samples taken from such shipment, and the results of such tests will be binding on the parties.

(c) If the Independent Analyst determines that the Defective Product does not conform to the warranties set out in Section 7, Cellegy will, at its expense, replace any such Defective Product and reimburse Licensee for the costs of the Independent Analyst.

(d) If the Independent Analyst determines that the Defective Product does conform to the warranties set out in Section 7, Licensee will reimburse Cellegy for the costs of the Independent Analyst.

(e) Except with respect to Defective Product arising from gross negligence or willful misconduct of Cellegy or its suppliers, with respect to indemnification obligations hereunder, and except with respect to the remedy for failure to supply the Licensed Product as set forth in Section 7.10 hereof, replacement of Defective Product shall be Licensee's sole remedy under this Agreement with respect to Defective Products. For the avoidance of doubt, the parties acknowledge and agree that Defective Product issues contemplated in this Section 7.5 could trigger a Stockout period, subject to the terms set forth in Section 7.10.

7.6 Product Packaging. Licensee agrees to provide Cellegy with all artwork desired for packaging and labeling of the Licensed Product, and Cellegy agrees to pack and label the Licensed Product in a manner approved by Licensee and pursuant to Licensee's standard export procedure.

7.7 Title and Risk of Loss. All Licensed Product shall be delivered F.O.B. Licensee at a location in the Territory set forth in writing by Licensee. Title to Licensed Products and all risk of loss shall pass from Cellegy to Licensee at the time and place of such delivery by Cellegy to a location in the Territory designated by Licensee. Licensee shall be solely responsible for insuring Licensed Product after such delivery.

7.8 Export Controls. Cellegy's obligation to sell and deliver Licensed Product to Licensee shall be subject in all respects to such laws and regulations of the United States of America and the Territory as shall from time to time govern, respectively, the sale and delivery of goods abroad by persons subject to the jurisdiction of the United States of America and the sale and delivery of goods in the Territory. Subject to the right of the Licensee to export, re-export or transship any of the Licensed Product to another country within the Territory, excluding the actions of any government or military purchaser, Licensee shall not directly or indirectly export, re-export or transship any of the Licensed Product, except as shall be permitted by the laws and regulations of the United States of America and the Territory in effect from time to time. Upon Cellegy's reasonable request, Licensee shall give written assurances against such export, re-export, or transshipment.

7.9 Supply Warranty and Disclaimer.

(a) Cellegy represents and warrants to Licensee that Cellegy will use its best efforts to ensure that the Product supplied under this Agreement will upon delivery and for the duration of shelf life: (1) conform in all respects to the approved product specifications; (2) be manufactured, tested, and (subject to Licensee's contributions under Section 7.5 above) labeled and packaged in accordance with the Laws in the Territory relating to the manufacture, labeling, packaging and testing of the Licensed Product; and (3) will be manufactured in accordance with the Good Manufacturing Practice.

(b) Warranty Limitation; Disclaimer. Except as set forth in Section 7.9(a) above, the sole warranty given by Cellegy regarding any Licensed Product shall be that written limited warranty, if any, which shall accompany such Product or which shall otherwise be designated in writing by Cellegy as applicable to such Licensed Product, as the same may be revised by Cellegy from time to time. After the Launch Date of the Licensed Product, subsequent changes to the limited warranty must be approved by Licensee, which approval shall not be unreasonably withheld. Licensee agrees to provide to its customers within the Territory a written warranty for each Licensed Product on terms which are at least as favorable to such customers as that provided by the applicable limited warranty provided by Cellegy, if any, for such Licensed Product. EXCEPT AS EXPRESSLY SO WARRANTED AND REPRESENTED IN THIS AGREEMENT, CELLEGY HEREBY DISCLAIMS ALL WARRANTIES, EXPRESS, STATUTORY AND IMPLIED, APPLICABLE TO THE LICENSED PRODUCT INCLUDING, BUT NOT LIMITED TO, ANY WARRANTY OF MERCHANTABILITY, DESIGN, AND/OR FITNESS FOR A PARTICULAR PURPOSE AND/OR AGAINST INFRINGEMENT OR THE

[*] designates portions of this document that have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

LIKE. EXCEPT TO THE EXTENT ARISING FROM CELLEGY'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OR ANY BREACH OF THIS AGREEMENT, AND EXCEPT WITH RESPECT TO INDEMNIFICATION OBLIGATIONS HEREUNDER, THE WRITTEN LIMITED WARRANTY, IF ANY, APPLICABLE TO ANY PARTICULAR PRODUCT SHALL STATE THE FULL EXTENT OF CELLEGY'S LIABILITY, WHETHER DIRECT OR INDIRECT, SPECIAL OR CONSEQUENTIAL, RESULTING FROM ANY BREACH OF SUCH WARRANTY. EXCEPT AS EXPRESSLY SET FORTH IN ARTICLE 2, CELLEGY FURTHER DISCLAIMS ALL EXPRESS, STATUTORY AND IMPLIED WARRANTIES APPLICABLE TO THE LICENSED PRODUCT, WHICH ARE NOT MANUFACTURED BY CELLEGY, OR BY A LICENSEE OR SUBLICENSEE OF CELLEGY. EXCEPT AS EXPRESSLY SET FORTH IN ARTICLE 2, THE ONLY WARRANTIES APPLICABLE TO LICENSED PRODUCT NOT MANUFACTURED BY CELLEGY OR BY A LICENSEE OR SUBLICENSEE THEREOF SHALL BE THE WARRANTIES, IF ANY, OF THE MANUFACTURERS OF THOSE ITEMS.

(c) EXCEPT FOR SUCH WARRANTIES SET FORTH IN ARTICLE 2, LICENSEE HEREBY DISCLAIMS ALL REPRESENTATIONS AND WARRANTIES, EXPRESS, STATUTORY AND IMPLIED, APPLICABLE TO THE LICENSED PRODUCT INCLUDING, BUT NOT LIMITED TO, ANY WARRANTY OF MERCHANTABILITY, DESIGN, FITNESS FOR A PARTICULAR PURPOSE AND/OR AGAINST INFRINGEMENT OR THE LIKE. EXCEPT TO THE EXTENT ARISING FROM LICENSEE'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OR ANY BREACH OF THIS AGREEMENT, AND EXCEPT WITH RESPECT TO INDEMNIFICATION OBLIGATIONS HEREUNDER, THE WRITTEN LIMITED WARRANTY, IF ANY, APPLICABLE TO ANY PARTICULAR PRODUCT SHALL STATE THE FULL EXTENT OF LICENSEE'S LIABILITY, WHETHER DIRECT OR INDIRECT, SPECIAL OR CONSEQUENTIAL, RESULTING FROM ANY BREACH OF SUCH WARRANTY.

7.10 Remedy for Failure to Supply Licensed Product.

(a) In the event that Cellegy breaches its obligation to supply the Licensed Product in accordance with Section 7.1 through Section 7.5, and [*]

(b) For the purposes of this Section 7.10, the following definitions shall apply:

(i) [*]

(ii) [*]

(iii) [*]

(iv) [*]

(v) [*]

ARTICLE 8
PATENT RIGHTS

8.1 No Ownership By Licensee. Subject to Section 8.2 below, Licensee shall not be deemed by anything contained in this Agreement or done pursuant to it to acquire any right, title or interest in the Patent Rights or any patent owned by or licensed to Cellegy now or hereafter covering or applicable to any Product, nor in or to any invention or improvement, owned by Cellegy under Section 8.2, now or

[*] designates portions of this document that have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

hereafter embodied in any Product, whether or not such invention or improvement is patentable under the laws of any country.

8.2 New Cellegy Inventions/Improvements. [*]

8.3 Improvements by Licensee. [*]

8.4 [*]

ARTICLE 9

INFRINGEMENT AND OTHER CLAIMS

9.1 Infringement by Third Person. In the event Cellegy or Licensee have reason to believe that a Third Person may be infringing Patent Rights or Proprietary Rights or misappropriating any of the Licensed Products, or infringing, misappropriating or diluting any Licensed Trademark, such party shall promptly notify the other party. Cellegy may, in its discretion, elect to enforce the Licensed Products, Proprietary Rights or Cellegy Trademarks, through legal action or otherwise, and Licensee agrees to reasonably cooperate with Cellegy in such enforcement. At all times in any such enforcement action, Cellegy shall be entitled to retain recovery which may be obtained in any lawsuit brought by Cellegy. In the event Cellegy elects not to enforce the Patent Rights relating to the Licensed Product within one (1) month after notice of the possible infringement is given between Cellegy and Licensee, and Licensee can demonstrate that the potential infringement may result in material lost sales of the Licensed Product within the applicable country, then Licensee may institute a lawsuit or other such actions at its expense to prevent continuation of such potential infringement, and then (1) Licensee may discontinue the payment in such country by 50% during the suit, until such time as the infringement of the Patent Rights relating to the Licensed Patents ceases, (2) Licensee will retain all award, damages or compensation obtained by Licensee in such suit in full, and (3) Cellegy will provide reasonable cooperation with respect to any lawsuit which Licensee may bring pursuant to this Article.

9.2 Alleged Infringement of Third Person Patents.

(a) If a claim or lawsuit is brought against Licensee alleging infringement of any patent or infringement or dilution of any trademark owned by a Third Person arising from Licensee's use, sale, offer for sale, or importing of the Licensed Product or any improved Product or use of Proprietary Rights, Licensee shall provide to Cellegy all information in Licensee's possession regarding such claim or lawsuit. Within a reasonable time after receiving notice of such claim or lawsuit, but in any event within forty five (45) days after receiving such notice, Cellegy shall advise Licensee of Cellegy's decision as to what action it plans to take to dispose of such claim or defend such lawsuit.

(b) Cellegy shall defend, indemnify and hold Licensee harmless against any judgment, damage, liability, loss, cost or other, expense (including reasonable legal fees) resulting from any claim or lawsuit which relates to or arises out of the alleged infringement by Licensee of any patent owned by a Third Person to the extent that the alleged infringement relates to actions covered by the Exclusive License granted to Licensee.

(c) If Cellegy elects not to dispose of such claim or defend such lawsuit, Licensee may defend the claim or lawsuit. For purposes of Licensee's conduct of the disposition or defense, Cellegy shall furnish to Licensee such reasonable assistance as Licensee may need and from time to time reasonable request. If Licensee takes on the disposition of a claim or defense of a lawsuit for which Cellegy is obligated to indemnify Licensee pursuant to this Article, then the payments for such Licensed

Product in such country, which would otherwise be payable to Cellegy hereunder, shall be reduced by 50% during the pendency of such lawsuit or any appeal taken from it, provided that such reduction shall not occur in the event that, in the opinion of Cellegy's counsel, the defense of such claim is unwarranted. Upon final resolution of the above-described claim, lawsuit and/or appeal, Licensee shall resume paying Cellegy any royalties or license payments payable hereunder, but in no event shall Licensee be liable for back royalties otherwise reduced hereunder during the suit.

(d) If Licensee becomes obligated to pay royalties to any Third Person, in order to make, have made, or sell the Licensed Product in the Territory, said royalties shall be creditable against royalties otherwise payable to Cellegy hereunder; provided, that no such credit shall be allowed with respect to any royalty paid for the use of any technology, method, process, device, or equipment in connection with manufacturing, packaging or any container or delivery system, or the use of any trademark, that was developed by Licensee, any Affiliate of Licensee or any sublicensee, or obtained from a Third Person.

9.3 By Cellegy. Cellegy shall defend, indemnify and hold Licensee harmless against any liability, damage, loss, cost or expense, including reasonable legal fees ("Liability") arising out of or resulting from any Third Person claims or lawsuits made or brought against Licensee, any Affiliate of Licensee or sublicensee, or any of their respective employees, agents, or contractors, to the extent such Liability arises out off or relates to (i) negligence or willful misconduct of Cellegy, or any of this employees, agents or contractors, with regard to clinical trials or testing of the Licensed Product or any Improved Product, the preparation and filing of FDA Applications, the maintenance of NDAs, product labeling, reporting required by the FDA, or any other negligent or wrongful act or omission of Cellegy; (ii) the manufacture, storage, promotion, sale or distribution or use of the Licensed Product, (iii) any claim that Licensee's use of the Licensed Product violated the patent rights of a Third Party in any country of the Territory in which Cellegy has a patent application filed or granted covering the Licensed Product; (iv) a Product Liability Claim based on action or inaction of Cellegy, (iv) Cellegy's breach of, or failure to comply with any representations, warranties, covenants or obligations or this Agreement and (v) any material failure of Cellegy or any of its employees, agents or contractors to comply with any applicable law, rule or regulation.

9.4 By Licensee. Licensee shall defend, indemnify and hold Cellegy harmless against any liability, damage, loss, cost or expense, including reasonable legal fees ("Liability"), arising out of or resulting from: (i) any Third Person claims or lawsuits made or brought against Cellegy, or any of its employees, agents or contractors, to the extent such Liability arises out of or relates to negligence or willful misconduct of Licensee, any Affiliate of Licensee or sublicensee, or any of their respective employees, agents or contractors, with regard to the promotion, labeling, distribution or sale of, the Licensed Product, and Improved Product, or the use of the Proprietary Rights; or (ii)breach of, or failure to perform or comply with, any of its representations, warranties, covenants and obligations under this Agreement, or (iii) any material failure of Licensee or any of its employees, agents or contractors to comply with any applicable law, rule or regulation.

9.5 Conditions to Indemnification. The indemnified party shall: (i) advise the indemnifying party of any claim or lawsuit, in writing promptly, after the indemnified party has received notice of said claim or lawsuit and (ii) assist the indemnifying party and its representatives in the investigation and defense of any claim and/or lawsuit for which indemnification is provided. The agreement of the parties to indemnify each other shall not be valid as to any settlement of a claim or lawsuit or offer of settlement or compromise without the prior written approval of the indemnifying party. Failure of the indemnified party to provide the notice described in (i) shall affect the indemnifying party's obligation to indemnify the indemnified party only to the extent the indemnifying party's rights are prejudiced by such failure.

9.6 Control of Proceedings. In actions in which one or both of Licensee and Cellegy is named as a defendant, neither party shall assert a crossclaim or third-party claim against the other party for either contribution or indemnity in that action, but each agrees and reserves the right to fully litigate such claims for indemnity and contribution at a later time. Further, neither party will pursue a litigation strategy of affirmatively asserting the fault or liability of the other party as opposed to simply demonstrating the absence of their own fault. Each party will provide its own defense; provided, however, that Cellegy has the right, at any time, subject to the rights and obligations set forth below, to assume the defense of any action against Licensee.

9.7 Indemnification Claim. If, at the conclusion of an action, either party believes it is entitled to contribution or indemnification under the provisions above, such party shall give the other written notice of its claim for contribution or indemnification (the "Indemnification Claim"). The party who receives the Indemnification Claim shall have thirty (30) business days in which to respond. In the event the parties cannot agree on the validity or amount of the Indemnification Claim, then the parties shall submit their dispute to confidential mediation, in accordance with Section 16.17. Neither party may assert the statute of limitations as a defense to the claim for contribution or indemnification unless the limitations period had already expired and would have barred the underlying action against that party at the time the underlying

action was filed.

9.8 Assumption of Defense by Cellegy. In the event Cellegy exercises its right to assume the defense of an action against Licensee, Cellegy shall have the exclusive right to control the defense (including all decisions relating to litigation, defense and appeal) of any Claim related to Licensee as described by Section 9.6.In such instances the Licensee shall have the right to retain its own counsel at its sole cost and expense and participate in such defense. With respect to settlement, Cellegy shall obtain Licensee's consent to any settlement of a Claim, related to Licensee as described in Section 9.6, prior to settlement of such claim, which consent shall not be unreasonably withheld. If Cellegy requests Licensee's cooperation, Licensee shall reasonably cooperate with Cellegy in its defense of the Claim, related to Licensee as described in Section 9.6 (including, without limitation, making documents and records available for review and copying and making persons within its control available for interview, trial preparation assistance and testimony) and Cellegy shall be responsible for all costs and expenses associated with Licensee's cooperation.

ARTICLE 10
CONFIDENTIALITY

10.1 Treatment of Confidential Information. Except as otherwise provided in this Article 10, during the term of this Agreement and for a period of three (3) years thereafter, Licensee and its Affiliates will retain in confidence and use only for purposes of this Agreement any information, data, and materials supplied by Cellegy or on behalf of Cellegy to Licensee and its Affiliates under this Agreement, and Cellegy will retain in confidence and use only for purposes of this Agreement any information, data, and materials supplied by Licensee or on behalf of Licensee to Cellegy under this Agreement. For purposes of this Agreement, all such information and data which a party is obligated to retain in confidence shall be called "Confidential Information." For the avoidance of doubt, Cellegy Information shall constitute Confidential Information of Cellegy.

10.2 Right to Disclose. To the extent it is reasonably necessary or appropriate to fulfill its obligations or exercise its rights under this Agreement or any rights which survive termination or expiration hereof, Licensee may disclose Confidential Information to its Affiliates, Sublicensees, consultants, outside contractors, clinical investigators or other Third Parties on condition that such entities or persons agree in writing (a) to keep the Confidential Information confidential for the same time periods and to the same extent as Licensee is required to keep the Confidential Information confidential and (b) to

use the Confidential Information only for such purposes as Licensee is entitled to use the Confidential Information. Each party or its Affiliates or Sublicensees may disclose such Confidential Information to government or other regulatory authorities to the extent that such disclosure (i) is reasonably necessary to obtain Approvals; or (ii) is otherwise legally required.

10.3 Release From Restrictions. The foregoing obligations in respect of disclosure and use of Confidential Information shall not apply to any part of such Confidential Information that the non-disclosing party, or its Affiliates (all collectively referred to as the "Receiving Party") can demonstrate by contemporaneously prepared written evidence:

(a) is or becomes part of the public domain other than by acts of the Receiving Party in contravention of this Agreement;

(b) is disclosed to the Receiving Party or its Affiliates or Sublicensees by a Third Party, provided such Confidential Information was not obtained by such Third Party directly or indirectly from the other party under this Agreement;

(c) prior to disclosure under this Agreement, was already in the possession of the Receiving Party or its Affiliates or Sublicensees, provided such Confidential Information was not obtained, directly or indirectly, from the other party under this Agreement; or

(d) results from research and development by persons who have not

had access to the disclosures made to Receiving Party under this Agreement, including any information obtained through the testing, manufacturing regulatory approval, or distribution of the Licensed Product, or other activities undertaken in connection with this Agreement by the Receiving Party.

10.4 Confidentiality of Agreement. Except as otherwise required by law or the terms of this Agreement or mutually agreed upon by the parties hereto, each party shall treat as confidential the terms, conditions and existence of this Agreement, except that Cellegy and Licensee may disclose such terms and conditions and the existence of this Agreement to its Affiliates and Sublicensees, and that Cellegy and Licensee may disclose the terms to its shareholders to the extent required by the federal securities laws, and provided, that Cellegy shall seek confidential treatment of the key business terms contained in this Agreement, including but not limited to all payments owed hereunder. Upon the execution of this Agreement, the parties shall draft a joint press release, the text of such shall be mutually agreeable to each party, announcing the execution of the Agreement.

10.5 Return of Confidential Information. Upon termination of this Agreement with respect to the entire Territory, the parties hereto shall return to the respective party all of such parties confidential information in their respective possession along with a certification that such party no longer possesses any such Confidential Information of such other party.

ARTICLE 11
TRADEMARKS

11.1 Cellegy's Marks. Cellegy owns or has the right to use certain Trademarks, and certain of the Trademarks may be registered in the jurisdiction(s) which comprise the Territory.

11.2 Use of Cellegy's Marks by Licensee. Licensee will have the exclusive right to use the Trademark in the Territory in connection with the promotion, marketing, sale and distribution of Licensed Product. Licensee shall use The Trademark only in the form and manner prescribed by Cellegy and shall further have the right to use a different trademark on the Licensed Product, provided, that Licensee shall

not use the Trademark in conjunction with a different trademark in accordance with Section 11.8 hereof. In no event shall Licensee use any of the Trademark or any similar mark or term as part of its business name. In the event that Licensee does not desire to use the Trademark, Licensee will notify Cellegy within twelve (12) months after the Effective Date, and Cellegy shall have the right to terminate the license to the Trademark in its entirety. A termination of the Licensee to the Trademark shall not be deemed to terminate the License to the Licensed Product granted in Section 3 hereof.

11.3 Acknowledgment of Ownership. Licensee acknowledges that

(a) Cellegy owns the Trademark and all goodwill associated with or symbolized by the Trademark;

(b) Licensee has no ownership right in or to any of the Trademark; and

(c) Licensee shall acquire no ownership interest in or to any of the Trademark by virtue of this Agreement. Licensee shall do nothing inconsistent with Cellegy's ownership of the Trademark and related goodwill and agrees that all use of the Trademark by Licensee shall inure to the benefit of Cellegy. Nothing in this Agreement shall be deemed to constitute or result in an assignment of any of the Trademark to Licensee or the creation of any equitable or other interests therein. Licensee shall not use any of the Trademark in any manner as a part of its business, corporate or trade name.

11.4 Marking. Licensee shall mark all advertising, promotional or other materials created by it and bearing any of the Trademark (the "Licensee Material") with such notices as Cellegy may require, including, but not limited to, notices that the Trademark are trademarks of Cellegy and are being used with the permission of Cellegy.

11.5 Registration. Cellegy shall have the sole right to take such action as it deems appropriate to obtain trademark registration in the Territory for the Trademark. If it shall be necessary for Licensee to be the applicant to effect any such registrations, Licensee shall cooperate with Cellegy to effect any such registrations, and hereby does assign all of its right, title and interest in and to each such application, and any resulting registration, to Cellegy, and shall execute all papers and documents necessary to effectuate or confirm any such assignment. Licensee shall perform all reasonable and necessary acts and execute all necessary documents to affect the registration of the Trademark as Cellegy may request, all at Cellegy's sole expense. Licensee shall not obtain or attempt to obtain in the Territory, or elsewhere, any right, title or interest, registration, or otherwise, in or to the Trademark, or any of them. In the event that any such right, title or interest should be obtained by Licensee in contravention hereof, Licensee shall hold the same on behalf of Cellegy and shall transfer the same to Cellegy upon request and without expense to Cellegy.

11.6. Infringement Information. Licensee shall notify Cellegy promptly of any unauthorized use of the Trademark or of any mark confusingly similar, thereto which comes to its attention. Cellegy shall have the sole right to determine whether or not any action shall be taken against any such infringement, and Licensee shall not institute any suit or take any action on account of any such infringement or imitation without first obtaining the written consent of Cellegy to do so.

11.7 Termination of Use. Upon expiration or earlier termination of this Agreement, Licensee shall cease using the Trademark in any manner, either similar or dissimilar to the use enumerated above.

11.8 Trademarks. Licensee covenants and warrants that Licensee's use of the Trademark or other trademarks, trade names, logos and designations of Cellegy on any and all Licensed Product,

Licensed Product packaging or labels, stationery, invoices, catalogs, brochures, packages, containers, and advertising or promotional materials which Licensee or its Agents prepare or use will be in accordance with Cellegy's intellectual property policies in effect from time to time, including but not limited to trademark usage and cooperative advertising policies. Cellegy agrees to provide copies of such policies to Licensee. Licensee agrees not to attach any additional trademarks, trade names, logos or designations to any Licensed Product except in compliance with such policies or otherwise with Cellegy's prior written consent which will not be unreasonably withheld or delayed.. Licensee further agrees not to use any Cellegy trademark, trade name, logo or designation in connection with any products other than the Licensed Product. Licensee will include on each Licensed Product that it distributes, and on all containers and storage media therefor, all trademark, copyright and other notices of proprietary rights included by Cellegy on such Licensed Product. Licensee agrees not to alter, erase, deface or overprint any such notice on anything provided by Cellegy. Licensee also will include the appropriate trademark notices when referring to any Licensed Product in advertising and promotional materials. Licensee shall submit to Cellegy for its prior written approval and before any use is made thereof, representative samples of the initial Licensed Product, stationery, invoices, catalogs, brochures, packages, containers, and advertising or promotional materials bearing any of the Trademark which Licensee or its Sublicensees prepare, but need not seek prior approval for subsequent uses of such materials that are in compliance with Cellegy's policies. Licensee shall also submit to Cellegy for its prior written approval any such materials that may not be consistent with Cellegy's intellectual property policies in effect from time to time, and Cellegy shall use all reasonable efforts to respond promptly to give its approval or indicate the respects in which changes are required in light of Cellegy's policies.

ARTICLE 12
TERM; TERMINATION

12.1 Term. Unless terminated sooner pursuant to Articles 12.2, 12.3 or 12.4 below, this Agreement shall become effective as of the Effective Date and shall continue in full force and effect in each country until the later of (a) the date of expiration of the last to expire of the Patent Rights in such

country, on a country-by-country basis, or (b) the end of the commercial life of the Licensed Product, as determined by Licensee, country by country, with one (1) year written notice from Licensee to Cellegy for each country. For countries in which none of the Patent Rights are filed, the date set forth in subitem (a) above shall be deemed to be the date of the last to expire of the Patent Rights in the last applicable country. Such termination may be made with respect to one or more regions of the Territory without effecting the rest of this Agreement or the Exclusive License granted hereunder in any other region of the Territory.

12.2 Bilateral Termination Rights. Either party may terminate this Agreement upon the occurrence of any of the following:

(a) The other party becomes the subject of a voluntary bankruptcy or insolvency case;

(b) The other party becomes the subject of an involuntary bankruptcy or insolvency case that is not dismissed within 60 days; or

(c) Upon or after the material breach of any provision of this Agreement by the other party (other than an actual or claimed breach of 3.7(a) by Licensee, which shall instead be governed by the provisions of Section 3.7(b) hereof) if such material breach is not cured within ninety (90) days after written notice thereof to the party in default.

12.3 Bankruptcy Rights.

(a) If Licensee terminates this Agreement based on Article 12.2(a), the License rights will remain intact pursuant to Section 365(n) of the US Bankruptcy Code.

(b) If Cellegy plans to seek bankruptcy or reorganization relief, Cellegy will notify Licensee of such intent prior to filing, and Cellegy at its option may offer to Licensee all rights to the Licensed Product at the fair market value of the Licensed Product to Cellegy.

(c) If Licensee plans to seek bankruptcy or reorganization relief, Licensee will notify Cellegy of such intent prior to filing, and Licensee at its option may offer to Cellegy those assets and personnel relating to the performance of this Agreement at the fair market value of such assets to Licensee.

12.4 Rights Upon Termination or Expiration. Upon expiration or termination of this Agreement, the rights and obligations of the parties shall cease, including without limitation all licenses, except as follows:

(a) Upon expiration or termination for any reason, the obligations of confidentiality and use of Confidential Information under Article 10 shall survive for the period provided therein;

(b) Upon expiration or termination for any reason, Articles 9 and 12 of this Agreement shall survive for the maximum duration permitted by law;

(c) Articles 4, 5, 6.1 6.2 and 7.10 shall survive until all outstanding payment obligations and reporting obligations of Licensee and its Affiliates and Sublicensees have been fulfilled, and Article 6.3 shall survive for three years following the year in which such termination or expiration became effective; and

(d) Expiration or termination of this Agreement shall not relieve the parties of any other obligation accruing prior to such termination.

(e) To the extent that the then-current inventory was purchased by Licensee from Cellegy under Article 7 hereof, Cellegy shall have the right to repurchase all then-current inventory of the Licensed Product then in Licensee's possession, at the Burdened Cost originally paid by Licensee for such inventory.

ARTICLE 13
REGULATORY MATTERs

13.1. Licensee's Obligations. Licensee shall be responsible to, and shall use all reasonable commercial efforts to do the following:

(a) Upon Approval of the Licensed Product, Licensee, at its own cost, will comply with any and all applicable statutory, administrative or regulatory requirements of the Territory or any governmental or political subdivisions thereof (collectively, "Laws") in relation to the importation, storage, resale, promotion or distribution of the Licensed Product in the Territory under this Agreement, including, without limitation, Licensed Product documentation such as Licensed Product tracking, samples, Licensed Product complaints, adverse event reporting requirements, post-marketing surveillance activities, and documentation of recalls, which documentation shall be maintained by the Licensee for the period required by the Relevant Regulatory Authorities in the Territory notwithstanding termination or

expiration of this Agreement, any Licensed Product registrations with any government agency or health authority, or any registration, approvals, or filing of this Agreement.

(b) Upon Approval of the Product, Licensee shall inform Cellegy on at least a semi-annual basis about the progress of such registration work, and will provide Cellegy with a copy of all presentations and documents submitted by Licensee to any regulatory authority with respect to the Licensed Product.

(c) As between the parties, Cellegy shall be responsible for regulatory costs relating to Approval in the United States, and for those mutually agreed clinical costs necessary for Approvals in the Territory, and Licensee will be responsible for regulatory costs relating to Approvals in Canada and Mexico, and for conducing and bearing the costs of all post-Approval regulatory monitoring and reporting in the Territory.

13.2. Cellegy's Obligations. Cellegy shall:

(a) use its commercially reasonable efforts to expeditiously obtain FDA Approval necessary for the sale of the Licensed Product within the United States, including without limitation, any additional clinical trials, studies or data in addition to the Cellegy Information that may be required in order to obtain Approvals for Licensed Product in the United States at Cellegy's sole expense; Cellegy shall provide Licensee with all information regarding the obtainment of such Approval and shall seek Licensee's input prior to taking any actions for seeking the Approval with the Relevant Regulatory Authorities;

(b) provide to Licensee within one (1) month from the date of execution of this Agreement a then-current and complete copy of the Cellegy Information;

(c) not intentionally withhold any information in its possession regarding the Licensed Product;

(d) at its cost, promptly provide a sufficient quantity of the Licensed Product reasonably necessary for Cellegy to prepare and submit the application, and the grant, maintenance, variation or renewal of Approvals;

(e) use reasonable commercial endeavors to procure raw materials to meet the demands of the Relevant Regulatory Authority relating to any application and any grant, maintenance, variation or renewal of Approvals; and

(f) at the request of Licensee, at Cellegy's expense supply all customary documentation (e.g., free sale certification, certification of analysis, etc.) that is normally necessary to gain an import pharmaceutical product license in the Territory.

(g) assist Licensee in the preparation and execution of any post-Approval trials in the United States that Licensee reasonably deems appropriate for the Licensed Product. All costs associated with the post-Approval trials will be borne by Licensee.

13.3. Adverse Drug Events and Recalls.

(a) The parties will comply with the adverse drug event reporting guidelines as set out in Exhibit A or modified from time to time in accordance with that Exhibit.

(b) Subject to Licensee's right to initiate a Licensed Product recall pursuant to subparagraph (c) below, Licensee will notify Cellegy of any product recalls on any quantity of Licensed Product at any time, and Licensee will administer any such recall in the Territory.

(c) If the Relevant Regulatory Authority requires or otherwise initiates a recall of the Licensed Product for any reason whatsoever, Licensee will immediately administer the recall.

(d) The parties may submit a sample of the Licensed Product to an Independent Analyst for a report. The cost of the report of the Independent Analyst will be paid by the party against which the report is unfavorable.

If an Independent Analyst finds that the sole reason for the recall of the Licensed Product is the action or inaction of Cellegy, then Cellegy will be liable for the cost of the recall and will reimburse Licensee for all reasonable costs and expenses of such recall and will provide replacement quantities of Licensed Product, free of charge. If an Independent Analyst finds that the sole reason for the recall of the Licensed Product is the action or inaction of Licensee, then Licensee will be liable for all such costs and expenses and will reimburse Cellegy for all reasonable costs and expenses (and the cost of any replacement quantities of Licensed Product) incurred by Cellegy in connection with such recall. If an Independent Analyst finds that the action or inaction of both Cellegy and Licensee were reasons for the recall, then Cellegy and Licensee will each be responsible for one-half of such costs of the recall unless the report of the Independent Analyst allocates responsibility in a different proportion.

13.4 Approvals

(a) All Approvals by any governmental agency or health authority which are necessary to sell the Licensed Product within the Territory shall be issued to, and held in the name of Licensee for the benefit of Cellegy; provided, however, that all such Approvals shall constitute the sole property of Cellegy.

(b) Cellegy shall promptly provide to Licensee, upon Licensee's request, such evidence that Licensee shall require, confirming that all Approvals necessary to import and sell the Licensed Product in the Territory have been obtained. If such evidence is not received by Licensee within thirty (30) days of the request, Licensee shall be entitled to not take shipment of the Licensed Product until such evidence is received.

(c) Cellegy hereby acknowledges that, except as may otherwise be required by law, Licensee has no obligation to verify the Cellegy Information.

13.5. Cellegy Information Warranties. Cellegy represents and warrants to Licensee that:

(a) to its knowledge, the Cellegy Information supplied to Licensee under this Agreement in relation to the Licensed Product will be true and that it will be legally entitled to supply this information to Licensee;

(b) it will use all reasonable commercial efforts to ensure that Cellegy will not alter the Cellegy Information supplied to Licensee or the materials or processes described in that information in relation to the Licensed Product without the prior written notification to and approval of Licensee; and

(c) it will use all reasonable commercial efforts to ensure that in no event will Cellegy implement any alteration to the Cellegy Information or the materials or processes described in the Cellegy Information in relation to any of the Licensed Product supplied to Licensee under this

[*] designates portions of this document that have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

Agreement until the Relevant Regulatory Authority in the Territory has approved all requisite amendments to the applicable Approvals.

13.6 Insurance. To the extent commercially available, both parties shall maintain in full force and effect for the term of this Agreement and for five (5) years thereafter product liability insurance and property damage insurance on its operations naming the other party as an additional insured, with terms reasonably satisfactory to the other party, and shall make a copy of such policy available to the other party upon request. The amount and extent of coverage of the insurance required hereunder, if any, shall be not less than a single limit liability of not less than U.S. $5 million in one claim and in the aggregate, and each party shall furnish to the other party copies of policies of insurance or certificates evidencing the existence and amounts of such insurance within thirty (30) days of the other party's request for such copies. Each party shall provide the other party with written notice of any cancellation of any insurance hereunder at least thirty (30) days prior to such cancellation.

ARTICLE 14
REGISTRATION OF LICENSE; LIMITATION OF LIABILITY

14.1 Licensee may, at its expense, register the exclusive license granted under this Agreement in any country of the Territory where the government of such country would require one for use, sale or distribution of the Licensed Product in such country and Cellegy shall reasonably cooperate in such registration at Licensee's expense. Upon request by Licensee, Cellegy agrees promptly to execute any "short form" licenses developed in a form reasonably acceptable to Cellegy and submitted to it by Licensee from time to time in order to affect the foregoing registration in such country.

14.2 NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR ANY SPECIAL, INDIRECT, OR CONSEQUENTIAL DAMAGES, WHETHER BASED ON BREACH OF CONTRACT, WARRANTY, TORT (INCLUDING NEGLIGENCE) OR OTHERWISE, AND WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE.

Article 15
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ARTICLE 16
GENERAL PROVISIONS

16.1 Force Majeure. Neither party shall be held liable or responsible to the other party nor be deemed to have defaulted under or breached this Agreement for failure or delay in fulfilling or performing any term of this Agreement, other than an obligation to make payments hereunder, when such failure or delay is caused by or results from fire, floods, embargoes, government regulations, prohibitions or interventions, war, acts of war (whether war be declared or not), insurrections, riots, terrorism, civil commotions, acts of God or any other cause beyond the reasonable control of the affected party to anticipate, prevent, avoid or mitigate (a "Force Majeure Event"); provided, however, that any failure or delay in fulfilling a term of this Agreement shall not be considered a result of a Force Majeure Event if it arises from a failure of Licensee or Cellegy to comply with applicable laws and regulations.

16.2 Further Assurances. Each party hereto agrees to perform such acts, execute such further instruments, documents or certificates, and provide such cooperation in proceedings and actions as may be reasonably requested by the other party in order to carry out the intent and purpose of this Agreement, including without limitation the registration or recordation of the rights granted hereunder.

16.3 Severability. Both parties hereby expressly acknowledge and agree that it is the intention of neither party to violate any public policy, statutory or common law, rules, regulations, treaty or decision of any government agency or executive body thereof of any country or community or

association of countries and specifically agree that if any word, sentence, paragraph, clause or combination thereof in this Agreement is found by a court or executive body with judicial powers having jurisdiction over this Agreement or any of the parties hereto in a final unappealed order, to be in violation of any such provisions in any country or community or association of countries, then in such event such words, sentences, paragraphs, clauses or combination shall be inoperative in such country or community or association of countries and the remainder of this Agreement shall remain binding upon the parties hereto.

16.4 Notices. Any notice required or permitted to be given hereunder shall be in writing and shall be deemed to have been properly given if delivered in person, or if mailed by registered or certified mail (return receipt requested) postage prepaid, or by a nationally recognized overnight courier, or by facsimile (and promptly confirmed by registered, certified mail or overnight courier), to the addresses given below or such other addresses as may be designated in writing by the parties from time to time during the term of this Agreement. Any notice sent by registered, certified mail or overnight courier as aforesaid shall be deemed to have been given when mailed.

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In the case of Cellegy:	With a required copy to:
Cellegy Pharmaceuticals, Inc. 349 Oyster Point Boulevard San Francisco, California 94080 Attention: John Chandler Telephone No.: (650) 616-2200 Facsimile No.: (650) 616-2222	Fenwick & West LLP 815 Connecticut Avenue, Suite 200 Washington, DC 20006 Attention: Kevin Kelso, Esq. Telephone No.: (202) 261-0405 Facsimile No.: (202) 463-6520
In the case of Licensee:	With a required copy to:
PDI, Inc. 10 Mountainview Road, Suite C-200 Upper Saddle River, NJ 07458 Attention: Charles T. Saldarini Telephone No.: (201) 258-8456 Facsimile No.: (201) 258-8445	PDI, Inc. 10 Mountainview Road, Suite C-200 Upper Saddle River, NJ 07458 Attention: Beth R. Jacobson Telephone No.: (201) 574-8383 Facsimile No.: (201) 258-8445

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16.5 Assignment. This Agreement may not be assigned or otherwise transferred by either party without the written consent of the other party; provided, however, that either party may, without such consent, assign this Agreement in connection with the transfer or sale of all or substantially all of its business related to this Agreement or in the event of the merger or consolidation of such party with another corporation, or in the case of Licensee, in the event of a sale by Licensee of all or substantially all of its business; and further provided that Cellegy may assign, transfer or pledge its rights to receive any payments due Cellegy hereunder without Licensee's consent; provided, however, that Licensee's consent shall be required for any payments due to Cellegy under this Agreement that are to be divided among separate entities. Any purported assignment in violation of the preceding sentence shall be void. Any permitted assignee shall assume all obligations of its assignor under this Agreement.

16.6 Amendment. The parties hereto may amend, modify or alter any of the provisions of this Agreement, but only by a written instrument duly executed by both parties hereto.

16.7 Entire Agreement. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof. All express or implied agreements and understandings, either oral or written, heretofore made are expressly merged in and made a part of this Agreement.

16.8 Waiver. The failure of a party to enforce at any time for any period any of the provisions hereof shall not be construed as a waiver of such provisions or of the rights of such party thereafter to enforce each such provisions.

16.9 No Implied Licenses. Except as expressly and specifically provided under this Agreement, the parties agree that neither party is granted any implied rights to or under any of the other party's current or future patents, trade secrets, copyrights, moral rights, trade or service marks, trade dress, or any other intellectual property rights.

16.10 Injunctions. The parties agree that any breach or threatened breach by one party of the confidentiality provisions contained in this Agreement will cause substantial harm to the other party that cannot be remedied by monetary damages, and therefore each party agrees that either party shall be have the right to obtain equitable remedies, without bond, including injunctions and repossession of Confidential Information, to abate actual or threatened breaches of this Agreement.

16.11 Independent Contractors. The parties agree that the relationship of Cellegy and Licensee established by this Agreement is that of independent licensee and licensor. Furthermore, the parties agree that this Agreement does not, is not intended to, and shall not be construed to, establish a partnership or joint venture, and nor shall this Agreement create or establish an employment, agency or any other relationship. Except as may be specifically provided herein, neither party shall have any right, power or authority, nor shall they represent themselves as having any authority to assume, create or incur any expense, liability or obligation, express or implied, on behalf of the other party, or otherwise act as an agent for the other party for any purpose.

16.12 No Third Party Beneficiaries. All rights, benefits and remedies under this Agreement are solely intended for the benefit of Cellegy and Licensee, and no Third Party shall have any rights whatsoever to (i) enforce any obligation contained in this Agreement (ii) seek a benefit or remedy for any breach of this Agreement, or (iii) take any other action relating to this Agreement under any legal theory, including but not limited to, actions in contract, tort (including but not limited to negligence, gross negligence and strict liability), or as a defense, setoff or counterclaim to any action or claim brought or made by the parties.

16.13 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, exclusive of its choice-of-law rules, except that questions affecting the construction and effect of any patent shall be determined by the laws of the country in which such patent has been granted.

16.14 Headings. The Article and paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

16.15 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same document.

16.16 Publicity. The parties agree that subsequent to the execution of this Agreement, a press release approved by both parties will be issued. Except for such press releases and for periodic disclosures required by law or regulation or in the ordinary course of its SEC filings, neither party shall (i) originate any publicity, news release or other public announcement, written or oral, whether to the public

press, stockholders or otherwise, relating to this Agreement, any amendment hereto or performance hereunder, or (ii) use the name of the other in any publicity, news release or other public announcement, except (a) with the prior written consent of the other party, or (b) as required by law, in which case the originating party will give to the other party at least two (2) days prior notice of such proposed disclosure to complete a review in order to offer comments and modifications. Consistent with applicable law, the other party will have the right to request reasonable changes to the disclosure to protect its interests. In all other cases, the originating party shall give the consenting party at least two (2) days to complete a review in order to offer comments, modifications or to give such consent. The party required to give consent shall respond in less than two (2) days if practicable

16.17 Dispute Resolution; Venue

(a) Mediation. If a controversy or claim arising out of or relating to this Agreement (hereinafter "Controversy") cannot be resolved through negotiations, Cellegy and Licensee agree to try in good faith to settle the Controversy through mediation before resorting to litigations.

(1) Either Party may invoke mediation at any time during negotiations by notifying the other party in writing (the "Mediation Notice") that it wishes to appoint a mediator. If the Parties cannot agree on a mediator within 30 days of the receipt of the Mediation Notice (or such longer time as may be mutually agreed), the Parties agree to submit the Controversy to the American Arbitration Association (hereinafter "AAA") for mediation under its Commercial Mediation Rules, to the extent that those rules are not inconsistent with this Section.

(2) Mediation shall be conducted within 30 days of the agreement of the mediator to conduct the mediation, or such longer time as may be agreed by the parties. It shall be conducted in Chicago, Illinois at such location as may be mutually agreeable to the Parties and shall continue for no longer than two consecutive business days, ending by 5 pm of the second day.

(3) The parties agree that each will be represented at each mediation session by a person with full authority to settle the Controversy.

(4) All fees and expenses of the mediation shall be borne by the parties equally. However, each party shall bear the expense of its own counsel, representatives, preparation and attendance.

(5) Neither party may commence litigation until the parties have conducted and ended mediation. In the event that the provisions of this subsection (b) would result in an otherwise timely claim being barred by an applicable statue of limitations, then the parties agree to toll the application of the statute of limitations for a period equal to the delay caused by the mediation.

(6) In the event that a controversy cannot be resolved through mediation, each Party shall thereafter have the right to pursue any and all remedies available at law or in equity.

(b) Venue. Any court proceeding instituted my one party against the other with respect to this Agreement may be commenced in the federal courts residing in the Southern District of New York or in the Northern District of California.

[remainder of page left intentionally blank]

REDACTED COPY

[Signature Page to Exclusive License Agreement]

IN WITNESS HEREOF, the parties have executed this Agreement as of the Effective Date.

PDI, INC.	CELLEGY PHARMACEUTICALS, INC.
By: ----------	By: ----------

<page>

EXHIBIT A
REPORTING OF ADVERSE DRUG EVENTS FOR THE PRODUCT

1. This Schedule describes the manner in which each of Cellegy and Licensee will meet their legal obligations of reporting adverse drug events connected with the product to each other.

2. DEFINITIONS

In this document the following terms have the meanings set out below:

"Adverse Drug Event" is any untoward medical occurrence in a patient or clinical investigation subject administered with a pharmaceutical product. This includes any unfavorable and unintended sign (including an abnormal laboratory finding), symptom, or disease temporally associated with the use of a medicinal product, whether or not considered related to the medicinal product.

"Minimum Criteria" means the minimum criteria for an Adverse Drug Event report and must include the following:

(a) name of the drug;

(b) a description of the adverse drug event;

(c) patient identifiers (any one or more of name, initials or clinical investigation number, age, sex or weight); and

(d) an identifiable source of the report;

"Non-serious Adverse Drug Event" is any Adverse Drug Event other than a Serious Adverse Drug Event;

"Serious Adverse Drug Event" is any Adverse Drug Event that satisfies one or more of the following criteria:

(a) fatal; or

(b) life-threatening; or

(c) causing disability or incapacity; or

(d) causing or prolonging hospitalization; or

(e) congenital anomaly or cancer; or

(f) requiring medical intervention to prevent permanent impairment or damage;

"Spontaneous reports" are reports from any non-clinical trial source, including regulatory agencies, consumers and literature;

"Unexpected Adverse Drug Event" is any Adverse Drug Event, the nature or severity of which is not consistent with the applicable product information.

3. COMMENCEMENT OF REPORTING TIME PERIOD

In this Schedule, where a time is specified within which any report is to be forwarded by either party to the other party, that period of time will commence when anyone representing the reporting party first learns of enough information to satisfy the Minimum Criteria.

4. REGULATORY REPORTING

4.1 Licensee will:

(a) be responsible for all reporting under this Schedule to the relevant regulatory authority in the Territory including reporting, where applicable, of any international case reports forwarded by Cellegy;

(b) send to Cellegy a copy of all mail exchanges with the relevant regulatory authority in the Territory; and

(c) give Cellegy timely notice of any meetings or discussions with the relevant regulatory authority in the Territory concerning the safety of any of the Licensed Products.

4.2 Cellegy will:

(a) be responsible for all reporting to other regulatory authorities

and the other licensees/distributors outside the Territory;

(b) notify Licensee of any action taken by any regulatory authority concerning the safety of any of the Licensed Products within one (1) working day (references in this Schedule to working days refer to U.S. calendar days, other than a Saturday or Sunday, on which Citibank's San Francisco, California, offices are open for commercial banking business during normal banking hours) of that action being taken and will provide Licensee with complete information concerning that action;

(c) provide to Licensee an EU PSUR on an annual basis for three years following all relevant Approvals (four quarterly or two six-monthly reports are acceptable as an annual report). Thereafter provide to Licensee a half yearly summary of all spontaneous reports in relation to the Licensed Products; and

5. SPONTANEOUS SERIOUS or UNEXPECTED ADVERSE DRUG EVENTS

5.1 Licensee will forward to Cellegy any spontaneous Serious or Unexpected Adverse Drug Event report within 72 hours of receipt of these by Licensee on A CIOMS 1 form.

5.2 All reports from Licensee on Adverse Drug Events shall be addressed to Cellegy as follows:

Cellegy Pharmaceuticals, Inc.
349 Oyster Point Boulevard
San Francisco, California 94080
Telephone No.: (650) 616-2200
Facsimile No.:(650)616-2222

5.3 Cellegy will acknowledge receipt of any such report within 5 working days of that receipt.

6. SPONTANEOUS NON-SERIOUS ADVERSE DRUG EVENT REPORT

6.1 Licensee will forward to Cellegy any spontaneous Non-serious Adverse Drug Event reports on a CIOMS 1 form on a monthly basis.

6.2 All reports from Licensee on Adverse Drug Events shall be addressed to Cellegy as follows:

Cellegy Pharmaceuticals, Inc.
349 Oyster Point Boulevard
San Francisco, California 94080
Telephone No.: (650) 616-2200
Facsimile No.: (650) 616-2222

6.3 Cellegy will acknowledge receipt of any such report within 5 working days of that receipt.

7. ARCHIVING OF REPORTS

7.1 Licensee will maintain all reports in accordance with any regulatory requirements in Territory.

7.2 Notwithstanding clause 7.1, Licensee will maintain a record of each report for at least 5 years from Licensee's receipt or creation of each report and such maintenance will include:

(a) a copy (hard copy or electronically available copy) of the report;

(b) the date of the initial receipt or creation of the report by Licensee; and

(c) for Serious or Unexpected Adverse Drug Event reports, the date the report was forwarded to and received by Cellegy.

8. CLINICAL TRIAL REPORTS

8.1 Licensee will forward to Cellegy any Serious or Unexpected Adverse Drug Event report that is considered to be drug related and occurs during clinical trials within 72 hours of receipt of such report by Licensee.

8.2 Any Serious Adverse Drug Event report based upon clinical trials forwarded to Cellegy according to clause 8.1 will:

(a) be reported on the Serious Adverse Event form from the case report form;

(b) include an assessment of causality by the investigator with an indication on the case report form; and

(c) if blinded studies are carried out, a disclosure of the randomization code by a person not directly involved in the study if it is ongoing, in order to permit entry of that data into a central database.

8.3 Licensee will forward to Cellegy any Non-serious Adverse Drug Event report from clinical trials as part of the end of study reports, provided however, that at least the safety sections of the end of study reports will be forwarded to Cellegy within 30 days of completion of the end of study reports.

8.4 All reports from Licensee on Adverse Drug Events from clinical trials shall be addressed to Cellegy as follows:

Cellegy Pharmaceuticals, Inc.
349 Oyster Point Boulevard
San Francisco, California 94080
Telephone No.: (650) 616-2200
Facsimile No.: (650) 616-2222

8.5 Cellegy will acknowledge receipt of any such report within 5 days of that receipt.

9. VARIATION OF THIS SCHEDULE

9.1 This Schedule may be amended by mutual consent of the parties as evidenced in writing and the amended Schedule will then prevail as the Schedule to the Agreement.

[*] designates portions of this document that have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

EXHIBIT B
MINIMUM SALES REQUIREMENTS
[*]

EXHIBIT C
PATENT RIGHTS FOR LICENSED PRODUCT

A. U.S. Patent Number 6,319,913 B1 entitled "Penetration Enhancing and Irritation Reducing Systems" issued November 20, 2001

B. U.S. Patent Application Number 09/963,287 (U.S. Publication Number US 2002/0058650 A1), a continuation of US 6,319,913 B1, entitled "Penetration Enhancing and Irritation Reducing Systems"

C. Canadian Patent Application Number 2,309,688 entitled "Penetration Enhancing and Irritation Reducing System" (National Phase of PCT Application Number PCT/US98/23750, Publication Number WO 99/24041)

D. Mexican Patent Application Number 4513 (National Phase of PCT Application Number PCT/US98/23750, Publication Number WO 99/24041)

E. U.S. Patent Application (number not yet assigned) entitled "Semisolid Topical Hormonal Compositions and Methods for Treatment", filed October 4, 2002, claiming priority to U.S. Provisional Application Number 60/327,423, filed October 4, 2001

F. PCT Application Number PCT/US02/31997 (not yet published) entitled "Semisolid Topical Hormonal Compositions and Methods for Treatment", designated states include Canada and Mexico

G. U.S. Patent Application Number 10/197,627 entitled "Taper Well Meter Dose Pump"

H. PCT Application yet to be filed corresponding to U.S. Application Number 10/197,627, filing deadline June 4, 2003

EXHIBIT D
OTHER TESTOSTERONE PRODUCTS OWNED BY CELLEGY

Tostrelle(R) testosterone gel

[*] designates portions of this document that have been omitted pursuant to a request for confidential treatment filed separately with the Commission.

EXHIBIT E

BURDENED COST

"Burdened Cost" means [*]

Cellegy's estimated Burdened Cost for 2003 is as follows: [*]

EXHIBIT F
TRADEMARKS

Tostrex(TM)

A. US: Filed, second request; Application Number 75/866,691, class IN 5

B. Canada: Filed, pending; Application Number 1128610, class IN

C. Mexico: Registered, Registration Number 737847 issued 2/28/02, class IN 5

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement of PDI, Inc. on Form S-8 (File No. 333-61231) and in the Registration Statement of PDI, Inc. on Form S-3 (File No. 333-50024) of our report dated February 13, 2003, on our audits of the financial statements of PDI, Inc. as of December 31, 2002 and 2001, and for the years ended December 31, 2002, 2001 and 2000, which report is included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Florham Park, New Jersey
March 10, 2003

Exhibit 99.1

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 year ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles T. Saldarini, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Charles T. Saldarini
- ----------

Charles T. Saldarini
Chief Executive Officer
March 10, 2003

Exhibit 99.2

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 period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bernard C. Boyle, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Bernard C. Boyle
- ----------

Bernard C. Boyle
Chief Financial Officer
March 10, 2003