

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

FORM 10-Q

Mark One

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

For the Quarterly Period ended September 30, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 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 (I.R.S. Employer
incorporation or organization) Identification No.)

10 Mountainview Road
Upper Saddle River, New Jersey 07458
(Address of principal executive offices)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

As of October 31, 2003 the Registrant had a total of 14,356,317 shares of Common Stock, \$.01 par value, outstanding.

1

INDEX

PDI, INC.

PART I. FINANCIAL INFORMATION

Page

Item 1. Consolidated Financial Statements (unaudited)

Balance Sheets September 30, 2003 and December 31, 2002.....	3
Statements of Operations -- Three and Nine Months Ended September 30, 2003 and 2002.....	4
Statements of Cash Flows -- Nine Months Ended September 30, 2003 and 2002.....	5
Notes to Interim Financial Statements.....	6

Item 2. Management's Discussion and Analysis of Financial

Condition and Results of Operations.....21

Item 3. Quantitative and Qualitative Disclosures
About Market Risk.....Not Applicable

Item 4. Controls and Procedures.....37

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.....38
Item 2. Changes in Securities and Use of Proceeds.....39
Item 3. Default Upon Senior Securities.....39
Item 4. Submission of Matters to a Vote of Security Holders.....39
Item 5. Other Information.....39
Item 6. Exhibits and Reports on Form 8-K.....39

SIGNATURES.....41

2

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

<TABLE>
<CAPTION>

	September 30, 2003	December 31, 2002	
	-----	-----	
<S>	<C>	<C>	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 99,125	\$ 66,827	
Short-term investments	1,697	5,834	
Inventory, net of obsolescence reserve of \$835 and \$0 as of September 30, 2003 and December 31, 2002, respectively		174	646
Accounts receivable, net of allowance for doubtful accounts of \$1,328 and \$1,063 as of September 30, 2003 and December 31, 2002, respectively	37,700	40,729	
Unbilled costs and accrued profits on contracts in progress		4,466	3,360
Deferred training	1,703	1,106	
Prepaid income tax	--	18,856	
Other current assets	7,853	4,804	
Deferred tax asset	7,420	7,420	
	-----	-----	
Total current assets	160,138	149,582	
Net property and equipment	15,809	18,295	
Deferred tax asset	7,820	7,820	
Goodwill	11,132	11,132	
Other intangible assets	1,801	2,261	
Other long-term assets	1,709	1,849	
	-----	-----	
Total assets	\$ 198,409	\$ 190,939	
	=====	=====	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$ 5,164	\$ 5,374	
Accrued returns, rebates and sales discounts	10,767	16,500	
Accrued incentives	17,004	11,758	
Accrued salaries and wages	8,425	6,617	
Unearned contract revenue	8,673	9,473	
Restructuring accruals	474	4,699	
Other accrued expenses	15,301	13,307	
	-----	-----	
Total current liabilities	65,808	67,728	
	-----	-----	
Total liabilities	\$ 65,808	\$ 67,728	
	-----	-----	

Stockholders' equity:

Common stock, \$.01 par value, 100,000,000 shares authorized: shares issued and outstanding, September 30, 2003 - 14,259,203, December 31, 2002 - 14,165,880; restricted shares issued and outstanding at September 30, 2003 - 141,770, December 31, 2002 - 44,325	\$ 144	\$ 142
Preferred stock, \$.01 par value, 5,000,000 shares authorized, no shares issued and outstanding	--	--
Additional paid-in capital (includes restricted shares of \$2,253 and \$1,547 at September 30, 2003 and December 31, 2002, respectively)	108,264	106,673
Retained earnings	25,019	17,247
Accumulated other comprehensive income (loss)	43	(100)
Unamortized compensation costs	(759)	(641)
Treasury stock, at cost: 5,000 shares	(110)	(110)
Total stockholders' equity	132,601	123,211
Total liabilities & stockholders' equity	\$ 198,409	\$ 190,939

</TABLE>

The accompanying notes are an integral part of these financial statements

3

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

<TABLE>

<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Revenue				
Service, net	\$86,200	\$ 64,353	\$ 224,888	\$ 198,546
Product, net	81	215	197	6,438
Total revenue, net	86,281	64,568	225,085	204,984
Cost of goods and services				
Program expenses (including related party amounts of \$653 and \$4 for the quarters ended September 30, 2003 and 2002, respectively and \$1,287 and \$109 for the nine months ended September 30, 2003 and 2002, respectively)	61,815	67,475	162,004	200,473
Cost of goods sold	952	--	1,097	--
Total cost of goods and services	62,767	67,475	163,101	200,473
Gross profit (loss)	23,514	(2,907)	61,984	4,511
Compensation expense	9,297	9,157	27,294	26,210
Other selling, general and administrative expenses	7,676	9,433	20,714	19,207
Restructuring and other related expenses	--	972	(270)	972
Litigation settlement	--	--	2,100	--
Total operating expenses	16,973	19,562	49,838	46,389
Operating income (loss)	6,541	(22,469)	12,146	(41,878)
Other income, net	246	459	741	1,704
Income (loss) before provision for taxes	6,787	(22,010)	12,887	(40,174)
Provision (benefit) for income taxes	2,605	(7,696)	5,115	(14,403)
Net income (loss)	\$ 4,182	\$(14,314)	\$ 7,772	\$(25,771)

Basic net income (loss) per share	\$ 0.29	\$ (1.02)	\$ 0.55	\$ (1.84)
Diluted net income (loss) per share	\$ 0.29	\$ (1.02)	\$ 0.54	\$ (1.84)
Basic weighted average number of shares outstanding	14,252	14,063	14,202	14,012
Diluted weighted average number of shares outstanding	14,543	14,063	14,349	14,012

</TABLE>

The accompanying notes are an integral part of these financial statements

4

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

<TABLE>
<CAPTION>

Nine Months Ended September 30,

2003 2002

<C> <C>

<S>
Cash Flows From Operating Activities

Net income (loss)	\$ 7,772	\$ (25,771)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,428	5,352
Reserve for inventory obsolescence and bad debt	2,041	(2,128)
Loss on other investment	--	379
Amortized compensation costs	403	387
Deferred tax asset, net	--	650
Other changes in assets and liabilities:		
Decrease in accounts receivable	1,823	30,523
(Increase) decrease in inventory	(363)	442
(Increase) in unbilled costs and accrued profits on contracts in progress		(1,106) (2,435)
(Increase) decrease in deferred training	(596)	2,377
Decrease (increase) in other current assets	15,807	(9,403)
Decrease in other long-term assets	140	4,385
(Decrease) in accounts payable	(209)	(4,807)
(Decrease) in accrued returns, rebates and sales discounts	(5,733)	(50,813)
(Decrease) in accrued contract losses	--	(4,475)
Increase (decrease) in accrued liabilities	7,760	(7,997)
(Decrease) in restructuring liability	(4,225)	--
(Decrease) in unearned contract revenue	(800)	(2,852)
Increase (decrease) in other current liabilities	1,473	(9,955)
Net cash provided by (used in) operating activities	28,615	(76,141)
Cash Flows From Investing Activities		
Sale of short-term investments	4,279	5,456
Cash paid for acquisition, net of cash acquired	--	(2,735)
Investment in iPhysicianNet	--	(379)
Purchase of property and equipment	(1,482)	(3,799)
Net cash provided by (used in) investing activities	2,797	(1,457)
Cash Flows From Financing Activities		
Net proceeds from employee stock purchase plan and the exercise of stock options	886	1,496
Net cash provided by financing activities	886	1,496
Net increase (decrease) in cash and cash equivalents	32,298	(76,102)

Cash and cash equivalents - beginning	66,827	160,043
	-----	-----
Cash and cash equivalents - ending	\$ 99,125	\$ 83,941
	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements

5

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements of PDI, Inc. and its subsidiaries (the "Company" or "PDI") and related notes as included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission. The unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The unaudited interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments) which, in the judgment of management, are necessary for a fair presentation of such financial statements. Operating results for the three and nine month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. Certain prior period amounts have been reclassified to conform with the current presentation with no effect on financial position, net income or cash flows.

2. Revenue Recognition

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

Historically, the Company has derived a significant portion of its 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, the Company is likely to continue to experience significant client concentration in future periods. For the three and nine month periods ended September 30, 2003, the Company's largest clients who each individually represented 10% or more of the Company's service revenue, accounted for approximately 76.3% and 68.0%, respectively, of the Company's service revenue. For the three and nine month periods ended September 30, 2002, the Company's largest clients who each accounted for more than 10% of the Company's service revenue totaled 71.0% and 72.0%, respectively, of the Company's service revenue.

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

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

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. For all contracts, training costs are deferred and amortized on a straight-line basis over the shorter of the life of the contract to which they relate or 12 months. When the Company receives a specific contract payment from a client upon commencement of a product detailing program expressly to compensate the Company for recruiting, hiring and training services associated with staffing that program, such payment is deferred and recognized as revenue in the same period that the recruiting and hiring expenses are incurred and amortization of the deferred training is expensed. When the Company does not receive a specific contract payment for training, all revenue is deferred and recognized over the life of the contract. Product detailing, marketing and promotional expenses related to the detailing of products the Company distributes 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, the Company may incur significant initial direct program costs before recognizing revenue under a particular product detailing program. The Company's inability to specifically negotiate for payments that are specifically attributable to recruiting, hiring or training services in its product detailing contracts could adversely impact the Company's operating results for periods in which the costs associated with the product detailing services are incurred.

Product revenue and cost of goods sold

Product revenue is recognized when products are shipped and title is transferred to the customer. Product revenue for the three and nine month periods ended September 30, 2003 resulted primarily from the sale of the Xylos Corporation (Xylos) wound care products. Product revenue recognized in prior periods related to the Cefin contract which terminated by mutual consent in February 2002.

Cost of goods sold includes all expenses for both product distribution costs, acquisition and manufacturing costs of the 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.

3. Stock-Based Compensation

As of September 30, 2003 the Company has two stock-based employee compensation plans described more fully in Note 21 to the consolidated financial statements included in the Company's 2002 Annual Report on Form 10-K. Statement of Financial Accounting Standards (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, "Accounting for Stock Issued to Employees, and Related Interpretations." The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25. 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 have received restricted common stock, the amortization of which is reflected in net income. As required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of SFAS No. 123", the following table shows the estimated effect on earnings and per share data as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

7

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended		Nine Months Ended		
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002	
	(in thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	
Net income (loss), as reported		\$ 4,182	\$(14,314)	\$ 7,772	\$(25,771)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects		82	69	294	207
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects		(1,666)	(2,013)	(4,800)	(6,039)
Pro forma net income (loss)		\$ 2,598	\$(16,258)	\$ 3,266	\$(31,603)
Net income (loss) per share					
Basic--as reported		\$ 0.29	\$ (1.02)	\$ 0.55	\$ (1.84)
Basic--pro forma		\$ 0.18	\$ (1.16)	\$ 0.23	\$ (2.26)
Diluted--as reported		\$ 0.29	\$ (1.02)	\$ 0.54	\$ (1.84)
Diluted--pro forma		\$ 0.18	\$ (1.16)	\$ 0.23	\$ (2.26)

</TABLE>

Compensation cost for the determination of Pro forma net income (loss) - 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 2.85% and 2.63% at September 30, 2003 and 2002, respectively; (ii) expected life of five years for the three and nine month periods ended September 30, 2003 and 2002; (iii) expected dividends of \$0 for the three and nine month periods ended September 30, 2003 and 2002; and (iv) volatility of 100% for the three and nine month periods ended September 30, 2003 and 2002. The weighted average fair value of options granted during the three and nine month periods ended September 30, 2003 was \$12.94 and \$11.23, respectively, and for the three and nine month periods ended September 30, 2002 was \$8.71 and \$11.80, respectively.

In March 2003, the Company initiated an option exchange program pursuant to which eligible employees, which excluded certain members of senior management, were offered an opportunity to exchange an aggregate of 357,885 outstanding stock options with exercise prices of \$30.00 and above for either cash or shares of restricted stock, depending upon the number of options held by an eligible employee. The offer exchange period expired on May 12, 2003. Approximately 310,403 shares of common stock underlying eligible options were tendered by eligible employees and accepted by the Company. This number represents approximately 87% of the total shares of common stock underlying

eligible options. A total of approximately 120 eligible participants elected to exchange an aggregate of approximately 59,870 shares of common stock under eligible options and received cash in the aggregate amount of approximately \$67,000 (which amount includes applicable withholding taxes). A total of approximately 145 eligible participants elected to exchange an aggregate of approximately 250,533 shares of common stock underlying eligible options in exchange for an aggregate of approximately 49,850 shares of restricted stock. All tendered options have been canceled and are eligible for re-issuance under the Company's option plans. The restricted stock is subject to three-year cliff vesting and is subject to forfeiture upon termination of employment other than in the event of the recipient's death or disability.

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

4. Current 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), Lotensin HCT(R) and Lotrel(R), which agreement runs through December 31, 2003. On May 20, 2002, this agreement was replaced by two separate agreements, one for Lotensin and one for Lotrel-Diovan through the addition of Diovan(R) and Diovan HCT(R). Pursuant to the Lotensin agreement, the Company provides promotion, selling, marketing and brand management for Lotensin. In exchange, the Company is entitled to receive a revenue split for Lotensin based on certain total prescription (TRx) objectives above specified contractual baselines. Under the Lotrel-Diovan agreement, the Company copromotes Lotrel, 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 TRx objectives. Revenue and costs from the Lotrel and Diovan programs are classified in 2003 in the sales and marketing services segment as they are fee for service programs in which the Company has greater certainty of recouping its expenses with the additional potential for incentives at year end based on achieving certain performance criteria. During 2002 revenue and expenses under these programs were included in what is now referred to as the pharmaceutical products group segment, since they were performance based programs where the Company was not assured of recouping its expenses. 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, this program could have a material adverse impact on the Company's future results of operations, financial condition or cash flows. While the Company currently estimates that future revenues will continue to exceed costs associated with this program, as was the case in the three and nine months ended September 30, 2003, there is no assurance that actual revenues will exceed costs in the future; in which event the activities covered by this program could yield an operating loss and a contract loss reserve could be required. In July 2003, the FDA granted Novartis pediatric exclusivity for Lotensin until February 2004, although the agreement terminates on December 31, 2003. The sales force assigned to Lotensin was at times used to promote other products in addition to Lotensin, including products covered by the Company's other copromotion arrangements, which partially offset the cost of the sales force.

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. Pursuant to this agreement, the Company has certain minimum purchase requirements. The minimum purchase requirement for the calendar year 2003 is \$750,000. The minimum 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 event less than \$750,000. The Company has the right to terminate the agreement with 135 days' notice to Xylos, beginning January 1, 2004. The Company began selling the Xylos products in January 2003; however, initial sales were significantly slower than anticipated and sales continue to perform materially slower than our sales forecasts. The Company is currently reviewing its strategies regarding its agreement with Xylos. Continued slow performance in selling the Xylos products could adversely affect the

Company's future results of operations, financial condition or cash flows and also could potentially impair the MD&D segment's ability to recover the value of its intangible assets including goodwill.

On May 29, 2003, the Company entered into an agreement with Organogenesis, Inc. (Organogenesis) whereby the Company agreed to provide sales, marketing and clinical support for Apligraf(R), Organogenesis' living, bi-layered skin substitute. The Company leveraged its wound care sales force to provide marketing resources in support of Apligraf. PDI InServe also utilized its current team of wound care nurses to provide after-sales clinical support for practitioners. Under the terms of the agreement, the Company received a fee with the potential to earn incentives based on performance. However, Apligraf sales thus far have not been strong enough for the Company to earn significant incentive payments. On October 14, 2003, the Company and Organogenesis each simultaneously exercised their termination rights to terminate the agreement, and the wound care sales force will cease marketing Apligraf as of January 12,

9

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

2004. The Company does not believe that this termination will have a material adverse impact on the future results of operations, financial condition or cash flows of the Company. The Company is actively negotiating with Organogenesis to provide them with a dedicated sales team to provide marketing resources in support of Apligraf. However, there can be no assurance that the Company will be able to reach an agreement with Organogenesis.

On December 31, 2002, the Company entered into a licensing agreement with Cellegy Pharmaceuticals, Inc. (Cellegy) for the exclusive North American rights for Fortigel(TM), a testosterone gel product. The agreement is in effect for the commercial life of the product. Cellegy submitted a New Drug Application (NDA) for the hypogonadism indication to the U.S. Food and Drug Administration (FDA) in June 2002. The initial 10-month Prescription Drug User Fee Act (PDUFA) date for the product was April 5, 2003. In March 2003, Cellegy was notified by the FDA that the PDUFA date had been revised to July 3, 2003. On July 3, 2003, Cellegy was notified by the FDA that Fortigel was not approved. Cellegy is in discussions with the FDA to determine the appropriate course of action needed to meet deficiencies cited by the FDA in its determination. The Company cannot predict with any certainty that the FDA will ultimately approve Fortigel for sale in the U.S. Under the terms of the agreement, the Company paid Cellegy a \$15.0 million initial licensing fee on December 31, 2002. This nonrefundable payment was made prior to FDA approval and, since there is no alternative future use of the licensed rights, the \$15.0 million payment was expensed by the Company in December 2002, when incurred. This amount was recorded in other selling, general, and administrative expenses in the December 31, 2002 consolidated statements of operations. Pursuant to the terms of the licensing agreement, the Company will be required to pay Cellegy a \$10.0 million incremental license fee milestone payment upon Fortigel's receipt of all approvals required by the FDA to promote, sell and distribute the product in the U.S. This incremental milestone license fee, if incurred, will be recorded as an intangible asset and amortized over its estimated useful life, as then determined, which is not expected to exceed the life of the patent. Royalty payments to Cellegy over the term of the commercial life of the product will range from 20% to 30% of net sales. As discussed in Note 12, in May 2003, the Company settled a lawsuit which sought to enjoin its performance under this agreement.

On October 8, 2003, the Company gave notice of non-binding mediation to Cellegy regarding the licensing agreement. The Company maintains that it was fraudulently induced into the licensing agreement and that Cellegy has materially breached certain material provisions of the licensing agreement. The Company is seeking return of the \$15.0 million initial licensing fee plus additional damages caused by Cellegy's conduct. The Company intends to pursue all legal remedies, if necessary, post mediation.

5. Historic Performance Based Contracts

In October 2001, the Company entered into an agreement with Eli Lilly and Company (Eli Lilly) to copromote Evista(R) in the U.S. 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

10

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

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 its contractual obligations under the Evista contract. There was no remaining accrual at September 30, 2003 or December 31, 2002 as the Company had no further obligations due to the termination of the contract. Operating losses of \$14.5 and \$32.2 million were recognized under this contract for the three and nine month periods ended September 30, 2002, respectively. There was no activity for the three and nine month periods ended September 30, 2003 since the termination was effective December 31, 2002.

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 six months after the expiration date of the product sold and certain administrative functions regarding Medicaid rebates. The Company's obligations for processing any returned products expires on December 31, 2004.

The Company has approximately \$10.8 million in sales rebates and return accruals related to Ceftin at September 30, 2003 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. The products sold under the Cefitin agreement had expiration dates estimated to run through June 30, 2004.

There was \$6.4 million of product revenue recognized under the Cefitin contract for the nine months ended September 30, 2002, of which \$716,000 was from the sale of inventory. The balance of \$5.7 million resulted from the net positive adjustments recorded in sales returns and allowances, discounts and rebates accounts for the first nine months of 2002 that occurred as the Company continued to satisfy its liabilities relating to the previous reserves recorded as a result of Cefitin sales in prior periods. Since those reserves were initially set up as estimates, using historical data and other information, there may continue to be both positive and negative adjustments made as the liabilities are settled in the future periods in which the Company is responsible for the liabilities, and such adjustments will be reflected in product revenue consistent with the classification of such accruals when they were initially recorded. As discussed above, the Company is responsible for the processing and payment through December 31, 2004 of sales rebates and returns for products it sold under the Cefitin agreement.

11

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

6. 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 in Xylos under the cost method and its ownership interest in Xylos is less than five percent. Based on current market conditions, the Company believes that as of September 30, 2003 its investment in Xylos is not impaired.

The Company has an investment in the preferred stock of iPhysicianNet, Inc. (iPhysicianNet) that is accounted for under the equity method; however, recognition of losses by the Company was suspended in 2000 after the Company's investment was reduced to zero. During 2002, additional investments of \$379,000 were made by the Company. Due to the continuing losses of iPhysicianNet, the 2002 investments were immediately expensed rather than recorded as an asset. The Company does not have, nor has it ever had, any commitments to provide future financing to iPhysicianNet. No investments were made by the Company in iPhysicianNet during the first nine months of 2003 and no losses were recorded in the period due to the suspension of losses mentioned above because the investment has been previously reduced to zero. The Company's ownership interest in iPhysicianNet is less than five percent. The Company was informed by iPhysicianNet that they ceased operations effective August 1, 2003.

7. Inventory

At September 30, 2003 and December 31, 2002, the Company had approximately \$174,000 and \$646,000, respectively, in finished goods inventory, relating to the products being marketed and distributed in accordance with the Xylos agreement discussed in Note 4. As a result of the continued lower than anticipated Xylos product sales, management performed an analysis of its XCell inventory as of September 30, 2003, to determine whether the inventory balance was appropriately stated at its net realizable value. Based on the results of this analysis, management recorded a reserve of \$835,000 to reduce the value of the XCell inventory to an estimated net realizable value of \$174,000.

8. New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (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. FASB deferred the latest date by which all public entities must apply FIN 46, to the first reporting period ending after December 15, 2003. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 clarifies the definition of a liability as currently defined in FASB Concepts Statement No. 6, "Elements of Financial Statements," as well as other planned revisions. This statement requires a financial instrument that embodies an obligation of an issuer to be classified as a liability. In addition, the statement establishes standards for the initial and subsequent measurement of these financial instruments and disclosure requirements. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and for all other matters, at the beginning of the second quarter 2004. FASB decided to defer the provisions of paragraphs 9 and 10 of FAS 150. While the specific timing of the final issuance of SFAS No. 150 was not stated, it is expected

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

that the SFAS No. 150 will be issued in the very near term. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

9. Historical and Pro Forma Basic and Diluted Net Income/(Loss) Per Share

Historical and pro forma 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 three and nine month periods ended September 30, 2003 and 2002 is as follows:

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2003	2002	2003	2002	
	(in thousands)				
<S>	<C>	<C>	<C>	<C>	
Basic weighted average number of common shares outstanding	14,252	14,063	14,202	14,012	
Dilutive effect of stock options	291	--	147	--	
Diluted weighted average number of common shares outstanding	14,543	14,063	14,349	14,012	

</TABLE>

Outstanding options at September 30, 2003 to purchase 447,174 shares of common stock with exercise prices ranging from \$21.10 to \$93.75 were not included in the computation of historical and pro forma diluted net income per share because to do so would have been antidilutive. Outstanding options at September 30, 2002 to purchase 1,650,2049 shares of common stock with exercise prices ranging from \$5.21 to \$98.70 were not included in the computation of historical and pro forma net loss per share because to do so would have been antidilutive as a result of the Company's net loss.

10. Short-Term Investments

At September 30, 2003, short-term investments were \$1.7 million, including

approximately \$1.2 million of investments classified as available for sale securities. At December 31, 2002, short-term investments were \$5.8 million, including approximately \$1.1 million 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.

11. Other Comprehensive Income (Loss)

A reconciliation of net income (loss) as reported in the Consolidated Statements of Operations to Other comprehensive income (loss), net of taxes is presented in the table below.

13

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(in thousands)			
Net income (loss)	\$4,182	\$(14,314)	\$7,772	\$(25,771)
Other comprehensive income, net of tax:				
Unrealized holding gain (loss) on available-for-sale securities arising during the period	16	(53)	106	(103)
Reclassification adjustment for losses included in net income (loss)	3	--	37	41
Other comprehensive income (loss)	\$4,201	\$(14,367)	\$7,915	\$(25,833)

</TABLE>

12. Commitments and Contingencies

Due to the nature of the business that the Company is engaged in, such as product detailing and distribution of products, these and other activities could expose the Company to risk. Such risks include, among others, risk of liability for personal injury or death to persons using products the Company promotes or distributes. There can be no assurance that substantial claims or liabilities will not arise in the future because of the nature of the Company's business activities and recent increases in litigation related to healthcare products including pharmaceuticals increases this risk. 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 an indemnification agreement; if the indemnity, although applicable, is not performed in accordance with its terms; or if the Company's liability exceeds the amount of applicable insurance or indemnity.

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, as well as its marketing of Evista in connection with the October 2001 distribution agreement with Eli Lilly.

14

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

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 detailed 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 agreed to reimburse the Company for all reasonable costs and expenses incurred to date in defending these proceedings. Bayer has reimbursed the Company for legal expenses which the Company had expensed as incurred during 2002 and 2003; (i) \$750,000 of the reimbursement was received in the first quarter of 2003 and (ii) \$540,000 of the reimbursement was received in October 2003. The Company is currently in discussions with Bayer regarding additional legal fee reimbursements; however, no agreement has been reached and therefore no additional amounts have been accrued to date.

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 was seeking monetary damages and injunctive relief, including preliminary injunctive relief, based on several claims related to the Company's alleged breaches of a contract sales force agreement entered into by the parties on November 20, 2002, and claims that the Company was misappropriating trade secrets in connection with its exclusive license agreement with Cellegy.

On May 8, 2003, the Company entered into a settlement and mutual release agreement with Auxilium (Settlement Agreement), by which the lawsuit and all related counter claims were dropped without any admission of wrongdoing by either party. The settlement terms included a cash payment which was paid upon execution of the Settlement Agreement as well as certain other additional

expenses. The Company recorded a \$2.1 million charge in the first quarter of 2003 related to this settlement. Pursuant to the Settlement Agreement, the Company also agreed that it would (a) not sell, ship, distribute or transfer any Fortigel product to any wholesalers, chain drug stores, pharmacies or hospitals prior to November 1, 2003, and (b) pay Auxilium an additional amount per prescription to be determined based upon a specified formula, in the event any prescriptions are filled for Fortigel prior to January 26, 2004. As discussed in Note 4, on July 3, 2003, Cellegy was notified by the FDA that Fortigel had not been approved. The Company believes that it will not pay any additional amount to Auxilium as set forth in clause (b) above since Fortigel was not approved by the FDA on July 3, 2003, and it is management's belief that FDA approval of Fortigel will not be given prior to January 26, 2004, if at all. The Company does not believe that the terms of the Settlement Agreement will have any material impact on the success of its commercialization of the product if or when the FDA approves it. There can be no assurances that the FDA will approve the product at a later date.

15

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

Other Legal Proceedings

The Company is currently a party to other legal proceedings incidental to its business. While the Company 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 the Company to settle a proceeding for a material amount or were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the Company's future results of operations, financial condition or cash flows.

No amounts have been accrued for losses under any of the above mentioned matters, other than for the Auxilium litigation settlement reserve, as no other amounts are considered probable or reasonably estimable at this time.

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

13. 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 the sales and marketing services segment, and the recognition that the infrastructure that supported these business units was larger than required. The Company estimated that the restructuring would result in annualized SG&A savings of approximately \$14.0 million, based on the level of SG&A spending at the time the Company initiated the restructuring; however, these savings may be offset by incremental SG&A expenses we could incur in future periods if the Company is successful in expanding its business platforms for its segments. Essentially all of the restructuring activities have been completed as of September 30, 2003.

In connection with this plan, the Company originally estimated that it would ultimately incur 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. Excluding \$0.3 million, all of these expenses were recognized in 2002; due to various factors, the \$0.3 million will not be incurred.

The primary items comprising the \$5.4 million in restructuring expenses were \$3.7 million in severance expense consisting of cash and non-cash termination payments to employees in connection with their involuntary termination and \$1.7 million in other restructuring exit costs relating to leased facilities and other contractual obligations.

During the quarter ended March 31, 2003, the Company recognized a \$270,000 reduction in the restructuring accrual due to negotiating higher sublease

proceeds than originally estimated for the leased facility in Cincinnati, Ohio.

During the quarter ended June 30, 2003 the Company incurred approximately \$133,000 of additional restructuring expense due to higher than expected contractual termination costs. This additional expense was recorded in program expenses consistent with the original recording of the restructuring charges.

Also during the quarter ended June 30, 2003 the Company recognized a \$473,000 reduction in the restructuring accrual due to lower than expected sales force severance costs. Greater success in the reassignment of sales representatives to other programs and the voluntary departure of other sales representatives combined to reduce the requirement for severance costs. This adjustment was recorded in program expenses consistent with the original recording of the restructuring charges.

16

PDI, INC.
 NOTES TO INTERIM FINANCIAL STATEMENTS - continued
 (unaudited)

The accrual for restructuring and exit costs totaled approximately \$474,000 at September 30, 2003, 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, 2002	Adjustments	Payments	Balance at September 30, 2003
<S>	<C>	<C>	<C>	<C>
Administrative severance	\$ 1,670	\$ --	\$(1,434)	\$236
Exit costs	1,288	(137)	(913)	238
	-----	-----	-----	-----
	2,958	(137)	(2,347)	474
	-----	-----	-----	-----
Sales force severance	1,741	(473)	(1,268)	--
	-----	-----	-----	-----
Total	<u>\$ 4,699</u>	<u>\$ (610)</u>	<u>\$(3,615)</u>	<u>\$474</u>

</TABLE>

14. Segment Information

The Company operates under three reporting segments: the sales and marketing services group (SMSG), pharmaceutical products group (PPG) and medical devices and diagnostics (MD&D), all of which have changed since the Company's September 30, 2002 financial presentation. Since the termination of the Ceftin contract and the elimination of Ceftin 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 predominantly on the performance of the products that it is responsible for marketing and/or selling (the PPG segment) - also in the aggregate. Further, all contracts within the MD&D industry, regardless of the nature of the contract, are reported in the MD&D segment. The SMSG segment includes the Company's contract sales (CSO) units; and the Company's marketing services business unit, which includes marketing research and medical education and communication services. The PPG segment includes revenues earned through the Company's licensing and copromotion of pharmaceutical products. The Company's MD&D segment includes PDI InServe, contract sales, and product licensing. The segment information from prior periods has been reclassified to conform to the current period's presentation.

Corporate charges are allocated to each of the operating segments on the basis of total salary costs. Corporate charges include corporate headquarter costs and certain depreciation expense. Certain corporate capital expenditures have not been allocated from the SMSG segment to the other operating segments since it is impracticable to do so.

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(in thousands)			
<S>	<C>	<C>	<C>	<C>
Revenue				
Sales and marketing services group	\$70,569	\$40,536	\$181,507	\$143,490
Pharmaceutical products group	12,663	21,619	34,894	55,067
Medical devices and diagnostics	3,049	2,557	8,684	6,941
Total	\$86,281	\$64,712	\$225,085	\$205,498

Revenue, intercompany				
Sales and marketing services group	\$ --	\$ 144	\$ --	\$ 514
Pharmaceutical products group	--	--	--	--
Medical devices and diagnostics	--	--	--	--
Total	\$ --	\$ 144	\$ --	\$ 514

</TABLE>

17

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

<TABLE>
<CAPTION>

(continued)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(in thousands)			
<S>	<C>	<C>	<C>	<C>
Revenue, less intercompany				
Sales and marketing services group	\$ 70,569	\$ 40,392	\$ 181,507	\$ 142,976
Pharmaceutical products group	12,663	21,619	34,894	55,067
Medical devices and diagnostics	3,049	2,557	8,684	6,941
Total	\$ 86,281	\$ 64,568	\$ 225,085	\$ 204,984

Income (loss) from operations				
Sales and marketing services group	\$ 12,349	\$ 1,375	\$ 33,725	\$ 16,208
Pharmaceutical products group	361	(19,208)	(3,529)	(44,949)
Medical devices and diagnostics	(2,232)	(572)	(6,067)	(1,265)
Corporate charges	(3,937)	(4,064)	(11,983)	(11,872)
Total	\$ 6,541	\$(22,469)	\$ 12,146	\$(41,878)

Income (loss) from operations, intercompany				
Sales and marketing services group	\$ --	\$ 68	\$ --	\$ 370
Pharmaceutical products group	--	(68)	--	(370)
Medical devices and diagnostics	--	--	--	--
Corporate charges	--	--	--	--
Total	\$ --	\$ --	\$ --	\$ --

Income (loss) from operations, less intercompany, before corporate allocations				
Sales and marketing services group	\$ 12,349	\$ 1,307	\$ 33,725	\$ 15,838
Pharmaceutical products group	361	(19,140)	(3,529)	(44,579)

Medical devices and diagnostics	(2,232)	(572)	(6,067)	(1,265)
Corporate charges	(3,937)	(4,064)	(11,983)	(11,872)
Total	\$ 6,541	\$ (22,469)	\$ 12,146	\$ (41,878)

Corporate allocations				
Sales and marketing services group	\$(3,256)	\$ (2,220)	\$ (9,421)	\$ (6,826)
Pharmaceutical products group	(452)	(1,634)	(1,666)	(4,506)
Medical devices and diagnostics	(229)	(210)	(896)	(540)
Corporate charges	3,937	4,064	11,983	11,872
Total	\$ --	\$ --	\$ --	\$ --

Income (loss) from operations, less corporate allocations				
Sales and marketing services group	\$ 9,093	\$ (913)	\$ 24,304	\$ 9,012
Pharmaceutical products group	(91)	(20,774)	(5,195)	(49,085)
Medical devices and diagnostics	(2,461)	(782)	(6,963)	(1,805)
Corporate charges	--	--	--	--
Total	\$ 6,541	\$ (22,469)	\$ 12,146	\$ (41,878)

Reconciliation of EBIT to income (loss) before provision for income taxes				
Total EBIT for operating groups	\$ 6,541	\$ (22,469)	\$ 12,146	\$ (41,878)
Other income, net	246	459	741	1,704
Income (loss) before provision for income taxes	\$ 6,787	\$ (22,010)	\$ 12,887	\$ (40,174)

</TABLE>

18

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
(continued)	2003	2002	2003	2002
	(in thousands)			
<S>	<C>	<C>	<C>	<C>
Capital expenditures				
Sales and marketing services group	\$1,036	\$ (48)	\$1,453	\$3,526
Pharmaceutical products group	--	--	--	217
Medical devices and diagnostics	19	--	29	56
Total	\$1,055	\$ (48)	\$1,482	\$3,799

Depreciation expense				
Sales and marketing services group	\$1,249	\$ 1,361	\$3,023	\$3,029
Pharmaceutical products group	276	706	653	1,629
Medical devices and diagnostics	89	86	291	234
Total	\$1,614	\$ 2,153	\$3,967	\$4,892

</TABLE>

15. 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. 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 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 totaled approximately \$11.1 million as of September 30, 2003 and December 31, 2002.

There were no changes in the carrying amount of goodwill since December 31, 2002. The carrying amounts at September 30, 2003 by operating segment are shown below:

(in thousands)	SMSG	PPG	MD&D	Total
	---	---	---	---
Balance as of December 31, 2002	\$3,344	\$ --	\$7,788	\$11,132
Amortization	--	--	--	--
Goodwill additions	--	--	--	--
	-----	-----	-----	-----
Balance as of September 30, 2003	\$3,344	\$ --	\$7,788	\$11,132
	=====	=====	=====	=====

All identifiable intangible assets recorded as of September 30, 2003 are being amortized on a straight-line basis over the life of the intangibles which is primarily five years. The carrying amounts at September 30, 2003 and December 31, 2002 are as follows:

<TABLE>
<CAPTION>

	As of September 30, 2003			As of December 31, 2002		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
	-----	-----	-----	-----	-----	-----
(in thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Covenant not to compete	\$1,686	\$ 695	\$ 991	\$1,686	\$442	\$1,244
Customer relationships	1,208	499	709	1,208	318	890
Corporate tradename	172	71	101	172	45	127
	-----	-----	-----	-----	-----	-----
Total	\$3,066	\$1,265	\$1,801	\$3,066	\$805	\$2,261
	=====	=====	=====	=====	=====	=====

</TABLE>

PDI, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS - continued
(unaudited)

Amortization expense totaled approximately \$153,000 and \$460,000 for the three-month and nine-month periods ended September 30, 2003 and 2002, respectively. Estimated amortization expense for the next five years is as follows:

(in thousands)	
2003	\$ 613
	=====
2004	613
	=====
2005	613
	=====
2006	422
	=====
2007	--
	=====

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Various statements made in this Quarterly Report on Form 10-Q 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 judgements 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 our objectives and plans will be achieved. Factors that could cause actual results to differ materially and adversely from those expressed or implied by forward-looking statements include, but are not limited to, the factors, risks and uncertainties (i) identified or discussed herein, (ii) set forth in "Risk Factors" under Part I, item 1, of the Company's Annual Report on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission, and (iii) set forth in the Company's periodic reports on Forms 10-Q and 8-K as filed with the Securities and Exchange Commission since January 1, 2003. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

We are a premier healthcare 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 who 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 in a company. We have previously made, and still intend to make, acquisitions where appropriate in order to advance our strategy. Should an acquisition(s) be made, we will report it in its relevant segment. Currently, our three reporting segments include:

- o 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).
- o PDI pharmaceutical products group (PPG), comprised of:
 - o copromotion; and
 - o licensing.
- o PDI medical devices and diagnostics group (MD&D), comprised of:
 - o contract sales services (CSO);

- o InServe;

21

- o copromotion; and
- o licensing.

An analysis of these reporting segments and their results of operations is contained in Note 14 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. Any failure to meet these benchmarks may result in the imposition of contractual penalties and could adversely affect our future results of operations, financial condition or cash flows. Also, our contracts might have a lower base fee enhanced by potential 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. Contracts may also be terminated for cause if we fail to meet stated performance benchmarks. The loss or termination of a large contract or the loss of multiple contracts could adversely affect our future results of operations, financial condition or cash flows.

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 that the loss or termination of any individual MR&C or EdComm contract would have a material adverse impact on our future results of operations, financial condition, or cash flows.

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 these contracts. These contracts typically involve significant start-up expenses and a greater risk of operating losses. These contracts normally require significant participation from our PPG, 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 may 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) and Lotrel(R), which agreement runs through December 31, 2003. On May 20, 2002, this agreement was replaced by two separate agreements, one for Lotensin and one for Lotrel-Diovan through the addition of Diovan(R) and Diovan HCT(R). Pursuant to this agreement, we provide promotion, selling, marketing and brand management for Lotensin. In exchange, we are entitled to receive a revenue split for Lotensin based on certain total prescription (TRx) objectives above specified contractual baselines. Under the Lotrel-Diovan agreement, we copromote Lotrel, Diovan and Diovan HCT 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.

Revenue and costs from the Lotrel and Diovan programs are classified in 2003 in the sales and marketing services segment as they are fee for service programs in which we have greater certainty of recouping our expenses with the additional potential for incentives at year end based on achieving certain performance criteria. During 2002 revenue and expenses under these programs were included in what is now referred to as the pharmaceutical products group segment, since they were performance based programs where we were not assured of recouping our expenses. 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, this program could have a material adverse impact on our future results of operations, financial condition or cash flows. While we currently estimate that future revenues will continue to exceed costs associated with this program, as was the case in the three and nine months ended September 30, 2003, there is no assurance that actual revenues will exceed costs in the future; in which event the activities covered by this program could yield an operating loss and a contract loss reserve could be required. In July 2003, the FDA granted Novartis pediatric exclusivity for Lotensin until February 2004, although our agreement terminates on December 31, 2003. The sales force assigned to Lotensin was at times used to promote other products in addition to Lotensin, including products covered by our other copromotion arrangements, which partially offset the costs of the sales force.

In October 2001, we entered into an agreement with Eli Lilly and Company (Eli Lilly) to copromote Evista(R) in the U.S. Under the terms of this 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 at September 30, 2003 or December 31, 2002 as we had no further obligations due to the termination of the contract. Operating losses of \$14.5 million and \$32.2 million were recognized under this contract for the three and nine months ended September 30, 2002, respectively. There was no activity

in the three and nine months ended September 30, 2003 since the termination was effective December 31, 2002.

On December 31, 2002, we entered into a licensing agreement with Cellegy Pharmaceuticals, Inc. (Cellegy) for the exclusive North American rights for Fortigel(TM), a testosterone gel product. The agreement is in effect for the commercial life of the product. Cellegy submitted a New Drug Application (NDA) for the hypogonadism indication to the U.S. Food and Drug Administration (FDA) in June 2002. The initial 10-month Prescription Drug User Fee Act (PDUFA) date for the product was April 5, 2003. In March 2003, Cellegy was notified by the FDA that the PDUFA date had been revised to July 3, 2003. On July 3, 2003, Cellegy was notified by the FDA that Fortigel was not approved. Cellegy is in discussions with the FDA to determine the appropriate course of action needed to meet deficiencies cited by the FDA in its determination. We cannot predict with any certainty that the FDA will ultimately approve Fortigel for sale in the U.S.

Under the terms of the agreement, we paid Cellegy a \$15.0 million initial licensing fee on December 31, 2002. This nonrefundable payment was made prior to FDA approval and, since there is no alternative future use of the licensed rights, the \$15.0 million payment was expensed by us in December 2002, when incurred. This amount was recorded in other selling, general, and administrative expenses in the December 31, 2002 consolidated statement of operations. Pursuant to the terms of the licensing agreement, we will be required to pay Cellegy a \$10.0 million incremental license fee milestone payment upon Fortigel's receipt of all approvals required by the FDA to promote, sell and distribute the product in the U.S. This incremental milestone license fee, if incurred, will be recorded as an intangible asset and amortized over its estimated useful life, as then determined, which is not expected to exceed the life of the patent. Royalty payments to Cellegy over the term of the commercial life of the product will range from 20% to 30% of net sales. As discussed in Note 12, in May 2003 we settled a lawsuit which sought to enjoin our performance under this agreement.

On October 8, 2003, we gave notice of non-binding mediation to Cellegy regarding the licensing agreement. We maintain that we were fraudulently induced into the licensing agreement and that Cellegy has materially breached certain material provisions of the licensing agreement. We are seeking return of the \$15.0 million initial licensing fee plus additional damages caused by Cellegy's conduct. We intend to pursue all legal remedies, if necessary, post mediation.

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. InServe is a 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 manufacturers, including Becton Dickinson, Boston Scientific and Johnson & Johnson.

In addition to helping establish our initial 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. Our MD&D service contracts have similar provisions to those sales and marketing services contracts described in our SMSG segment.

In October 2002, we 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. Pursuant to this agreement we have certain minimum purchase requirements. The minimum purchase requirement for the calendar year 2003 is \$750,000. The minimum 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 event less than \$750,000. We have the right to terminate the agreement with 135 days' notice to Xylos, beginning January 1, 2004. We began selling the

Xylos products in January 2003; however, initial sales were significantly slower

than anticipated and sales continue to perform materially slower than our sales forecasts. We are currently reviewing our strategies regarding our agreement with Xylos. Continued slow performance in selling the Xylos products could adversely affect our results of future operations, financial condition or cash flows and also could potentially impair the MD&D segment's ability to recover the value of its intangible assets including goodwill.

On May 29, 2003, we entered into an agreement with Organogenesis, Inc. (Organogenesis) whereby we agreed to provide sales, marketing, and clinical support for Apligraf(R), Organogenesis' living, bi-layered skin substitute. We leveraged our wound care sales force to provide marketing resources in support of Apligraf. PDI InServe also utilized its current team of wound care nurses to provide after-sales clinical support for practitioners. Under the terms of the agreement, we received a fee with the potential to earn incentives based on performance. However, Apligraf sales thus far have not been strong enough for us to earn significant incentive payments. On October 14, 2003, we and Organogenesis each simultaneously exercised our termination rights to terminate the agreement, and the wound care sales force will cease marketing Apligraf as of January 12, 2004. We do not believe that this termination will have a material adverse impact on our future results of operations, financial condition or cash flows. We are actively negotiating with Organogenesis to provide them with a dedicated sales team to provide marketing resources in support of Apligraf. However, there can be no assurance we will be able to reach an agreement with Organogenesis.

Revenues and costs of revenue

The paragraphs that follow describe the guidelines that we adhere to in accordance with generally accepted accounting principles (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 activities; the segment financial results are discussed later in the Consolidated Results of Operations section beginning on page 27 and in Note 14 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 pharmaceutical industry continues to consolidate. As a result, we are likely to continue to experience significant client concentration in future periods.

For the three and nine month periods ended September 30, 2003, our largest clients, who each individually represented 10% or more of our service revenue, accounted for approximately 76.3% and 68.0%, respectively, of our total service revenue. For the three and nine month periods ended September 30, 2002, our largest clients who each accounted for more than 10% of our service revenue totaled 71.0% and 72.0%, respectively, of our total service revenue.

Our product revenue for the three and nine months ended September 30, 2003 was comprised primarily of sales of the Xylos wound care products which began commercialization during January 2003. Of the \$6.4 million recorded as product revenue for the nine months ended September 30, 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 that occurred during the nine month period 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 continue to be both positive and negative adjustments made as the liabilities are settled in the future periods in which we are responsible for the liabilities. These adjustments will be reflected in product revenue consistent with the classification of such accruals when they were initially recorded. As discussed in Note 5 to the consolidated financial statements

located elsewhere in this report, we are responsible for the processing and payment through December 31, 2004 of sales rebates and returns for products it sold under the Ceftin agreement.

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, 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. For all contracts, training costs are deferred and amortized on a straight-line basis over the shorter of the life of the contract to which they relate or 12 months. When we receive a specific contract payment from a client upon commencement of a product detailing program expressly to compensate us for recruiting, hiring and training services associated with staffing that program, such payment is deferred and recognized as revenue in the same period that the recruiting and hiring expenses are incurred and the amortization of the deferred training is expensed. When we do not receive a specific contract payment for recruiting, hiring and training, all revenue is deferred and recognized over the life of the contract. 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. 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

As mentioned previously, product revenue for the three and nine month periods ended September 30, 2003 resulted primarily from the sale of the Xylos wound care products. Product revenue recognized in prior periods related to the Ceftin contract which terminated by mutual consent in February 2002. Product revenue is recognized when products are shipped and title is transferred to the customer.

Cost of goods sold includes all expenses for product distribution costs, acquisition and manufacturing costs of the 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.

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

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Revenue				
Service, net	99.9%	99.7%	99.9%	96.9%
Product, net	0.1	0.3	0.1	3.1
Total revenue, net	100.0%	100.0%	100.0%	100.0%
Cost of goods and services				
Program expenses	71.6	104.5	72.0	97.8
Cost of goods sold	1.1	--	0.5	--
Total cost of goods and services	72.7%	104.5%	72.5%	97.8%
Gross profit (loss)	27.3	(4.5)	27.5	2.2
Compensation expense	10.8	14.2	12.1	12.7
Other selling, general and administrative expenses		8.9	14.6	9.2
Restructuring and other related expenses, net	--	1.5	(0.1)	0.5
Litigation settlement	--	--	0.9	--
Total operating expenses	19.7	30.3	22.1	22.6
Operating income (loss)	7.6	(34.8)	5.4	(20.4)
Other income, net	0.3	0.7	0.3	0.8
Income (loss) before provision for income taxes ..		7.9	(34.1)	5.7
Provision (benefit) for income taxes	3.1	(11.9)	2.2	(7.0)
Net income (loss)	4.8%	(22.2)%	3.5%	(12.6)%

</TABLE>

Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002

Revenue. Net revenue for the quarter ended September 30, 2003 was \$86.3 million, 33.6% more than net revenue of \$64.6 million for the quarter ended September 30, 2002. As disclosed elsewhere in this MD&A, the Novartis sales force responsible for Lotrel/Diovan is now classified in the SMSG segment instead of the PPG segment where it was classified in 2002 due to a change in the nature of the arrangement.

Net revenue from the SMSG segment for the quarter ended September 30, 2003 was \$70.6 million, approximately 74.7% more than net revenue of \$40.4 million from that segment for the comparable prior year period. For the quarter ended September 30, 2003, \$19.6 million in revenue was earned on three significant fee for service contracts awarded in July 2003. GSK awarded us a contract beginning in July 2003 running through September 2004, which represents between \$80.0 million and \$85.0 million in potential revenue over the fifteen-month agreement. The other contracts, which became effective August 1, 2003 will run through December 31, 2004 and could represent an incremental revenue impact of between \$60.0 million and \$70.0 million over their full term. The remaining change from the prior year primarily reflects the reclassification of revenues earned from the Lotrel/Diovan contract as previously described.

Net PPG service revenue for the quarter ended September 30, 2003 was \$12.7 million compared to \$21.4 million in the comparable prior year period. Approximately \$10.9 million was attributable to our Lotensin contract for the three-month period ended September 30, 2003. The decrease in revenues from the prior year primarily reflects the reclassification of revenues earned from the Lotrel/Diovan contract as previously described. There was approximately \$215,000 in product revenue recorded for the period ended September 30, 2002, related to the net positive adjustments recorded in sales returns and allowances, discounts and rebates accounts for the quarter.

Net revenue from the MD&D segment was \$3.0 million compared to \$2.6 million in the comparable prior year period. This increase was due to the increased MD&D service revenue of approximately \$411,000 and the Xylos product sales of approximately \$81,000.

Cost of goods and services. Cost of goods and services for the quarter ended September 30, 2003 was \$62.8 million, 7.0% less than cost of goods and services of \$67.5 million for the quarter ended September 30, 2002. As a percentage of total net revenue, cost of goods and services decreased to 72.7% for the quarter ended September 30, 2003 from 104.5% in the comparable prior year period.

Program expenses (i.e., cost of services) associated with the SMSG segment for the quarter ended September 30, 2003 were \$51.1 million, 70.5% more than program expenses of \$29.9 million for the prior year period due primarily to increased revenue. As a percentage of sales and marketing services segment revenue, program expenses for the quarters ended September 30, 2003 and 2002 were 72.4% and 74.1%, respectively.

Cost of goods and services associated with the PPG segment were \$8.5 million and \$35.9 million for the quarters ended September 30, 2003 and 2002, respectively. As a percentage of PPG revenue, cost of goods and services for the quarters ended September 30, 2003 and 2002 were 67.5% and 165.8%, respectively. The Lotensin contract allows us to detail other products along with Lotensin; gross profit resulting from the Lotensin team's efforts has been positively impacted because the team details two other products along with Lotensin, therefore positively leveraging the cost of the team. In 2002, cost of sales was greater than 100% of revenue due primarily to the impact of the loss on the Evista contract.

All of the contracts in the PPG segment have annual performance parameters, the successful achievement of which will not be certain until the fourth quarter of 2003. Normally, until that time the gross profit percentage for the PPG segment would be less than our traditional contracts in the SMSG segment; however, in the third quarter of 2003, because of the excellent performance of Lotensin and our ability to leverage the cost of the team, gross profit for the PPG segment was more than our traditional contracts delivered. It is not possible at this time to predict whether these performance parameters will be achieved in future quarters. During 2002, the gross profit in this segment was negative due to the underperformance of our contracted products, most notably under the Evista agreement which was terminated effective December 31, 2002. We incurred an operating loss of approximately \$14.5 million under the Evista contract in the third quarter of 2002.

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 falls short of expectations. While we currently estimate that future revenues will exceed costs associated with these agreements, there is no assurance that actual revenues will exceed costs; in which event the activities covered by these agreements could yield an operating loss.

Cost of goods and services associated with the MD&D segment for the quarter ended September 30, 2003 were \$3.2 million, of which \$952,000 was related to product sales, 87.3% more than cost of goods and services of \$1.7 million for the prior year period. Of the product cost of sales, a reserve of \$835,000 was recorded to bring our XCell wound care product inventory to its estimated net realizable value of approximately \$174,000 as a result of our determination that the sales potential for these products has diminished materially.

Compensation expense. Compensation expense for the quarter ended September 30, 2003 was \$9.3 million, 1.5% more than the \$9.2 million for the comparable prior year period. As a percentage of total net revenue, compensation expense decreased to 10.8% for the quarter ended September 30, 2003 from 14.2% for the quarter ended September 30, 2002. This was partially attributable to the lower cost base created by the restructuring.

Compensation expense for the quarter ended September 30, 2003 attributable to the SMSG segment was \$5.5 million, \$0.4 million less than \$5.9 million for the quarter ended September 30, 2002. As a percentage of net revenue for the SMSG segment, compensation expense decreased to 7.8% for the quarter ended September 30, 2003 from 14.5% for the quarter ended September 30, 2002 due to the SMSG segment maintaining its cost levels despite the increase in revenue in the current year quarter.

Compensation expense for the quarter ended September 30, 2003 attributable to the PPG segment was \$2.7 million, or 21.4% of PPG revenue, compared to \$2.5 million, or 11.6% in the prior year period due to decrease in revenue year over year. Due to the FDA's determination that Fortigel is not approved at the current time, we are not expecting to increase the SG&A investment in this segment in the near future.

Compensation expense for the MD&D segment for the quarter ended September 30, 2003 was \$1.1 million compared to \$0.8 million in the comparable prior year period, reflecting the increased capabilities required for the continuing marketing of our wound care products.

Other selling, general and administrative expenses (other SG&A). Total other SG&A expenses were \$7.7 million, which includes a credit of approximately \$317,000 for reimbursement of legal fees associated with the current Baycol litigation, for the quarter ended September 30, 2003, 18.6% less than other SG&A expenses of \$9.4 million for the quarter ended September 30, 2002. As a percentage of total net revenue, total other SG&A expenses decreased to 8.9% for the quarter ended September 30, 2003 from 14.6% for the quarter ended September 30, 2002.

Other SG&A expenses attributable to the SMSG segment for the quarter ended September 30, 2003 were \$4.9 million, 3.8% higher than \$4.7 million attributable to that segment for the comparable prior year period. As a percentage of net revenue from sales and marketing services, other SG&A expenses decreased to 6.9% for the quarter ended September 30, 2003 compared to 11.7% in the comparable prior year period.

Other SG&A expenses attributable to the PPG segment for the quarter ended September 30, 2003 were \$1.5 million compared to \$3.8 million for the comparable prior year period. In the third quarter of 2003, there were fewer field personnel in this segment, which required less resources to provide services for the group; therefore, the allocation of corporate expenses to this segment is lower than in the comparable prior year period.

Other SG&A expenses attributable to the MD&D segment for the quarter ended September 30, 2003 were \$1.3 million, compared to \$0.9 million for the comparable prior year period. This increase was primarily attributable to the sales force costs and other marketing costs associated with the continued marketing of our wound care products, which began in January 2003.

Restructuring and other related expenses. See the "Restructuring and other related expenses" disclosure in the "Liquidity and Capital Resources" section below for further explanations of the Restructuring Plan and related activity in 2003 and 2002.

Operating income (loss). Operating income for the quarter ended September 30, 2003 was \$6.5 million, compared to an operating loss of \$22.5 million for the quarter ended September 30, 2002.

Operating income for the quarter ended September 30, 2003 for the SMSG segment was \$9.1 million, compared to an operating loss for the quarter ended September 30, 2002 of \$0.9 million. As a percentage of net revenue from the SMSG segment, operating income for that segment was 12.9% for the quarter ended September 30, 2003.

There was an operating loss for the PPG segment for the quarter ended September 30, 2003 of \$91,000, compared to an operating loss of \$20.8 million for the comparable prior year period which was

adversely affected by the poor performance on the Evista contract. During the quarter ended September 30, 2003, \$1.5 million in Lotensin revenue was deferred because of contractual obligations.

The MD&D segment recorded an operating loss of \$2.5 million for the quarter ended September 30, 2003, compared to an operating loss of \$0.8 million in the comparable prior year period, primarily due to the costs incurred for the launch of the Xylos wound care products, and the recognition of a reserve against inventory.

Other income, net. Other income, net, for the quarters ended September 30, 2003 and 2002 was \$246,000 and \$459,000, respectively, and was comprised primarily of interest income which is lower in 2003 due to lower interest rates.

Provision (benefit) for income taxes. There was income tax expense of approximately \$2.6 million for the quarter ended September 30, 2003, compared to an income tax benefit of \$7.7 million for the quarter ended September 30, 2002, which consisted of Federal and state corporate income taxes. The effective tax rate for the quarter ended September 30, 2003 was 38.4%, compared to an effective tax benefit rate of 35.0% for the quarter ended September 30, 2002. The rate for our 2002 tax benefit is lower than the 2003 effective tax rate because some states do not permit loss carryforwards or may impose minimum taxes, or both.

Net income (loss). There was net income for the quarter ended September 30, 2003 of approximately \$4.2 million, compared to a net loss of \$14.3 million for the quarter ended September 30, 2002 due to the factors discussed above.

Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

Revenue. Net revenue for the nine months ended September 30, 2003 was \$225.1 million, \$20.1 million or 9.8% more than net revenue of \$205.0 million for the nine months ended September 30, 2002. As disclosed above, the Novartis sales force responsible for Lotrel/Diovan is now classified in the SMSG segment instead of the PPG segment where it was classified in 2002 due to a change in the nature of the arrangement.

Net revenue from the SMSG segment for the nine months ended September 30, 2003 was \$181.5 million, \$38.5 million more than net revenue of \$143.0 million from that segment for the comparable prior year period. For the nine months ended September 30, 2003, \$19.6 million in revenue was earned on three significant fee for service contracts awarded in July 2003. GSK awarded us a contract beginning in July 2003 running through September 2004, which represents between \$80.0 million and \$85.0 million in potential revenue over the fifteen-month agreement. The other contracts, which became effective August 1, 2003 will run through December 31, 2004 and could represent an incremental revenue impact of between \$60.0 million and \$70.0 million over their full term.

Net PPG revenue for the nine months ended September 30, 2003 was \$34.9 million, \$20.2 million less than net revenue of \$55.1 million for the comparable prior year period, of which \$6.4 million was product revenue. Approximately \$27.3 million was attributable to our Lotensin contract for the nine months ended September 30, 2003. The decrease in revenue from the prior year primarily reflects the reclassification of revenues earned from the Lotrel/Diovan contract as previously described. With regard to product revenue in 2002, approximately \$716,000 was attributable to sales of Cefitin and \$5.7 million was attributable to the changes in estimates related to sales allowances and returns, and discounts and rebates recorded on previous Cefitin sales.

Net revenue for the MD&D segment for the nine months ended September 30, 2003 was \$8.7 million compared to \$6.9 million for the comparable prior year period. This increase can be attributed primarily to the increase in revenue generated by the MD&D service business.

Cost of goods and services. Cost of goods and services for the nine months ended September 30, 2003 was \$163.1 million, \$37.4 million or 18.6% less than cost of goods and services of \$200.5 million for

the nine months ended September 30, 2002. The decrease was primarily attributable to the termination of the Evista contract and the related program expenses. As a percentage of total net revenue, cost of goods and services decreased to 72.5% for the nine months ended September 30, 2003 from 97.8% in the comparable prior year period. This decrease was primarily attributable to the negative gross profit associated with the Evista contract from the comparable prior year period. The gross profit percentage of 27.5% attained on service revenue for the first nine months of 2003 approximates our historical standards which had been established through the year 2000.

Program expenses (i.e., cost of services) associated with the SMSG segment for the nine months ended September 30, 2003 were \$128.5 million, \$22.4 million more than program expenses of \$106.1 million for the prior year period. As a percentage of sales and marketing services segment revenue, program expenses for the nine months ended September 30, 2003 and 2002 were 70.8% and 74.2%, respectively. The gross profit increase to 29.2% from 25.8% is primarily attributable to higher performance incentives earned in the first quarter of 2003.

Cost of goods and services associated with the PPG segment were \$27.4 million and \$89.8 million for the nine months ended September 30, 2003 and 2002, respectively. As a percentage of PPG revenue, cost of goods and services for the nine months ended September 30, 2003 and 2002 was 78.5% and 163.0%, respectively. The decrease can be attributed to the termination of the Evista contract and the improved performance of the Lotensin contract.

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 falls short of baselines. While we currently estimate that future revenues will equal or exceed costs associated with our current PPG agreements, there is no assurance that this will occur; in the event the activities covered by these agreements yield an operating loss, we might be required to record a contract loss reserve.

Cost of goods and services associated with the MD&D segment were \$7.2 million for the nine months ended September 30, 2003, 56.5% more than cost of goods and services of \$4.6 million for the nine months ended September 30, 2002. We recognized a negative gross profit margin on the sale of the XCell products for the nine-month period ended September 30, 2003. This negative gross margin was due primarily to the recognition of a \$835,000 reserve to bring the XCell wound care product inventory to its net realizable value as a result of our determination that the sales potential for these products has diminished materially. If revenue does not increase in an amount sufficient to cover both the adjusted cost of inventory and the associated fixed warehousing costs, we could continue to generate negative gross profit on the sales of the XCell products. We are currently reviewing our strategies regarding our agreement with Xylos. Continued slow performance in selling the Xylos products could adversely affect our future results of operations, financial condition or cash flows.

Compensation expense. Compensation expense for the nine months ended September 30, 2003 was \$27.3 million, compared to \$26.2 million for the comparable prior year period. As a percentage of total net revenue, compensation expense decreased to 12.1% for the nine months ended September 30, 2003 from 12.8% for the nine months ended September 30, 2002. The increased compensation expense for the nine months ended September 30, 2003 is due in large part to increased incentive compensation expense due to improved results for the nine-month period ended September 30, 2003 as compared to the net loss experienced in the comparable prior year period which greatly reduced incentive compensation potential; excluding this increase in incentive compensation, compensation expense for the nine months ended September 30, 2003 would be 8.5% lower than the comparable prior year period due to the impact of the staff reduction and other efficiencies related to the 2002 Restructuring Plan.

Compensation expense for the nine months ended September 30, 2003 attributable to the SMSG segment was \$16.4 million compared to \$16.0 million for the nine months ended September 30, 2002. As a percentage of net revenue from the SMSG segment, compensation expense decreased to 9.1% for the nine-month period ended September 30, 2003 as compared to 11.2% in the comparable prior year period due to increased revenue in the SMSG segment for the nine-month

period ended September 30, 2003.

Compensation expense for the nine months ended September 30, 2003 attributable to the PPG segment was \$7.4 million compared to \$8.0 million in the comparable prior year period. As a percentage of revenue, compensation expense increased to 21.2% compared to 14.5% in the comparable prior year period; this increase is due to lower revenue for the nine-month period ended September 30, 2003.

Compensation expense for the nine months ended September 30, 2003 for the MD&D segment was \$3.5 million compared to \$2.2 million for the comparable prior year period; increased corporate management charges because of the participation of that group in the start-up activities in 2003 has resulted in higher compensation expense for this segment.

Other selling, general and administrative expenses (other SG&A). Total other SG&A expenses were \$20.7 million, which includes a credit of approximately \$1.2 million for reimbursement of legal fees associated with the current Baycol litigation, for the nine months ended September 30, 2003, 7.8% more than other SG&A expenses of \$19.2 million for the nine months ended September 30, 2002. This unfavorable variance is attributable to a large nonrecurring credit that lowered the 2002 expense base; a credit of \$2.3 million was recorded in the nine months ended September 30, 2002 for the reversal of a bad debt reserve associated with Cefitin sales and determined to be no longer required as of March 31, 2002. This was partially offset by a net savings in other SG&A in the nine months ended September 30, 2003 of \$0.8 million. As a percentage of total net revenue, total other SG&A expenses decreased to 9.2% for the nine months ended September 30, 2003 from 9.4% for the nine months ended September 30, 2002.

Other SG&A expenses attributable to the SMSG segment for the nine months ended September 30, 2003 were \$11.3 million, which were comparable to the \$11.1 million for the nine months ended September 30, 2002. As a percentage of net revenue from sales and marketing services, other SG&A expenses were 6.2% and 7.8% for the nine months ended September 30, 2003 and 2002, respectively.

Other SG&A expenses attributable to the PPG segment for the nine months ended September 30, 2003 were \$4.6 million compared to \$6.2 million for the comparable prior year period.

Other SG&A expenses attributable to the MD&D segment for the nine months ended September 30, 2003 were \$4.8 million compared to \$1.9 million for the nine months ended September 30, 2002 due to the increased sales and marketing costs that can be attributed to the Xylos agreement.

Restructuring and other related expenses. During the nine months ended September 30, 2003:

- o we recognized a \$270,000 reduction in the restructuring accrual due to negotiating higher sublease proceeds than originally estimated for the leased facility in Cincinnati, Ohio;
- o we incurred approximately \$133,000 of additional restructuring expense due to higher than expected contractual termination costs. This additional expense was recorded in program expenses consistent with the original recording of the restructuring charges;
- o we recognized a \$473,000 reduction in the restructuring accrual due to lower than expected sales force severance costs. Greater success in the reassignment of sales representatives to other programs and the voluntary departure of other sales representatives combined to reduce the requirement for severance costs. This expense reversal was recorded in program expenses consistent with the original recording of the restructuring charges.

Litigation settlement. On May 8, 2003, we entered into a settlement and mutual release agreement with Auxilium (Settlement Agreement). We recorded a \$2.1 million charge in the first quarter of 2003 which included a cash payment paid upon execution of the Settlement Agreement and other additional expenses that were required as part of the settlement (refer to Note 12 in the unaudited consolidated financial statements).

Operating income (loss). Operating income for the nine months ended September 30, 2003 was \$12.1 million, compared to an operating loss of \$41.9 million for the nine months ended September 30, 2002. The operating loss was primarily the result of losses generated by the performance based contracts in 2002, in particular the Evista contract.

Operating income for the nine months ended September 30, 2003 for the SMSG segment was \$24.3 million, or 169.7% more than SMSG operating income of \$9.0 million for the nine months ended September 30, 2002. As a percentage of net revenue from the SMSG segment, operating income for that segment increased to 13.4% for the nine months ended September 30, 2003, from 6.3% for the comparable prior year period.

There was an operating loss for the PPG segment for the nine months ended September 30, 2003 of \$5.2 million, compared to an operating loss of \$49.1 million for the prior year period. The large loss for the nine months ended September 30, 2002 can be attributed to the performance of the Evista contract.

During 2003, the PPG segment has met its goals of successfully marketing Lotensin, which has significantly exceeded its contractual TRx baseline, and of leveraging the team's sales force with additional products. Current TRx trends indicate that Lotensin will significantly exceed its contractual TRx baseline for the fourth quarter 2003 thereby generating the highest quarterly revenue for the year; additionally, revenue deferred because of contractual obligations through the first three quarters, totaling \$4.7 million, will be recognized in the fourth quarter of 2003. The combination of the above two factors should result in this segment being profitable for the full year of 2003.

A large investment of corporate management and staff time has been made in the setting of strategic direction and evaluation of product licensing and product acquisition opportunities. This has resulted in allocation of corporate overhead costs to the PPG segment.

There was an operating loss of \$7.0 million for the nine months ended September 30, 2003 for the MD&D segment compared to an operating loss of \$1.8 million in the comparable prior year period, primarily due to the start-up of the Xylos products business.

Other income, net. Other income, net, for the nine months ended September 30, 2003 and 2002 was \$741,000 and \$1.7 million, respectively. For the nine months ended September 30, 2003, other income, net, was comprised primarily of interest income, which was significantly lower than the comparable prior year period due to lower available cash balances and significantly lower interest rates. Other income, net, for the comparable prior year period was also comprised primarily of interest income.

Provision (benefit) for income taxes. There was income tax expense of \$5.1 million for the nine months ended September 30, 2003, compared to an income tax benefit of \$14.4 million for the nine months ended September 30, 2002, which consisted of Federal and state corporate income taxes. The effective tax rate for the nine months ended September 30, 2003 was 39.7%, compared to an effective tax benefit rate of 35.9% for the nine months ended September 30, 2002. The rate for our 2002 tax benefit was lower than the 2003 effective tax rate because some states do not permit loss carryforwards or may impose minimum taxes, or both.

Net income (loss). There was net income for the nine months ended September 30, 2003 of \$7.8 million, compared to a net loss of \$25.8 million for the nine months ended September 30, 2002 due to the factors discussed previously.

As of September 30, 2003, we had cash and cash equivalents of approximately \$99.1 million and working capital of approximately \$94.3 million, compared to cash and cash equivalents of approximately \$66.8 million and working capital of approximately \$81.9 million at December 31, 2002.

For the nine months ended September 30, 2003, net cash provided by operating activities was \$28.6 million, compared to \$76.1 million net cash used in operating activities for the nine months ended September 30, 2002. The main components of cash provided by operating activities during the nine months ended September 30, 2003 were:

- o cash provided from other changes in assets and liabilities of \$14.0 million, primarily due to the receipt of a federal income tax refund of \$20.7 million in August 2003, partially offset by reductions of \$5.7 million in our accrued returns, rebates and sales discounts liability;
- o net income of approximately \$7.8 million, and
- o depreciation and other non-cash expenses of approximately \$6.9 million which included an inventory valuation adjustment of \$835,000 which was charged to cost of goods sold; amortization of compensation expense associated with restricted stock of \$403,000, and amortization of intangible assets of \$460,000, all of which was charged to SG&A.

In the third quarter of 2003, a valuation reserve of \$835,000 was recorded to reduce the value of the inventory associated with our XCell wound care products to its net realizable value of approximately \$174,000 as a result of management's determination that the sales potential for this product has diminished materially. Our present plan is to explore our strategies with Xylos regarding the Xylos agreement.

As of September 30, 2003, we had \$8.7 million of unearned contract revenue and \$4.5 million of unbilled costs and accrued profits on contracts in progress. 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 on contracts in progress. 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 nine months ended September 30, 2003, net cash provided by investing activities of \$2.8 million consisted of \$4.3 million received from the sale of short-term investments, partially offset by \$1.5 million in purchases of property and equipment.

For the nine months ended September 30, 2003, net cash provided by financing activities of approximately \$886,000 was due to the net proceeds received from the employee stock purchase plan. For the nine months ended September 30, 2002 net cash provided by financing activities of \$1.5 million was also primarily due to the net proceeds received from the employee stock purchase plan.

Capital expenditures during the nine-month periods ended September 30, 2003 and 2002 were approximately \$1.5 million and \$3.8 million, respectively, and were funded out of available cash. As a result of the significant investment in capital expenditures during 2002 of \$4.0 million and 2001 of \$15.6

million, we currently estimate that we will require capital expenditures of only approximately \$2.0 million in 2003. In 2004 we will be moving our corporate headquarters to a new facility; in connection with that move, we are expecting to incur capital expenditures of approximately \$3.0 million to \$4.0 million.

Due to the ability to carry back net operating losses incurred for the year ended December 31, 2002, we received a Federal income tax refund of approximately \$20.7 million in August 2003.

Our revenue and profitability depend to a great extent on our relationships with a limited number of large pharmaceutical companies. For the nine months ended September 30, 2003, we had two major clients that accounted for approximately 34.4% and 33.6%, respectively, or a total of 68.0% 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, or a decrease in demand for our services, could have a material adverse effect on our business, future results of operations, financial condition or cash flows.

Under our licensing agreement with Cellegy, we will be required to pay Cellegy a \$10.0 million incremental license fee milestone payment upon Fortigel's receipt of all approvals required by the FDA to promote, sell and distribute the product in the U.S. Upon payment, this incremental milestone license fee will be recorded as an intangible asset and amortized over the estimated commercial life of the product, as then determined. This payment will be funded, when due, out of cash flows provided by operations and existing cash balances. In addition, under the licensing agreement, we will be required to pay Cellegy royalty payments ranging from 20% to 30% of net sales, including minimum royalty payments, if and when complete FDA approval is received. We believe that these royalty payments will be offset by product revenue. The initial 10-month Prescription Drug User Fee Act (PDUFA) date for the product was April 5, 2003. In March 2003, Cellegy was notified by the FDA that the PDUFA date had been revised to July 3, 2003. On July 3, 2003, Cellegy was notified by the FDA that Fortigel was not approved. Cellegy is in discussions with the FDA to determine the appropriate course of action needed to meet deficiencies cited by the FDA in its determination. We cannot predict with any certainty that the FDA will ultimately approve Fortigel for sale in the U.S. Management believes that it will not be required to pay Cellegy the \$10.0 million incremental license fee milestone payment in 2003, and it is unclear at this point when or if Cellegy will get Fortigel approved by the FDA which would trigger our obligation to pay \$10.0 million to Cellegy.

On October 8, 2003, we gave notice of non-binding mediation to Cellegy regarding the licensing agreement. We maintain that we were fraudulently induced into the licensing agreement and that Cellegy has materially breached certain material provisions of the licensing agreement. We are seeking return of the \$15.0 million initial licensing fee plus additional damages caused by Cellegy's conduct. We intend to pursue all legal remedies, if necessary, post mediation.

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.

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 the sales and marketing services segment, and the recognition that the infrastructure that supported these business units was larger than required. We estimated that the restructuring would result in annualized SG&A savings of approximately \$14.0 million, based on the level of SG&A spending at the time we initiated the restructuring; however, these savings may be offset by incremental SG&A expenses we could incur in future periods if we are successful in expanding our business platforms for our segments. Essentially all of the restructuring activities have been completed as of September 30, 2003.

In connection with this plan, we originally estimated that we would ultimately incur 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. Excluding \$0.3 million, all of these

expenses were recognized in 2002; due to various factors, the \$0.3 million will not be incurred.

The primary items comprising the \$5.4 million in restructuring expenses were \$3.7 million in severance expense consisting of cash and non-cash termination payments to employees in connection with their involuntary termination and \$1.7 million in other restructuring exit costs relating to leased facilities and other contractual obligations.

During the quarter ended March 31, 2003, we recognized a \$270,000 reduction in to the restructuring accrual due to negotiating higher sublease proceeds than originally estimated for the leased facility in Cincinnati, Ohio.

During the quarter ended June 30, 2003, we incurred approximately \$133,000 of additional restructuring expense due to higher than expected contractual termination costs. This additional expense was recorded in program expenses consistent with the original recording of the restructuring charges.

Also during the quarter ended June 30, 2003, we recognized a \$473,000 reduction in the restructuring accrual due to lower than expected sales force severance costs. Greater success in the reassignment of sales representatives to other programs and the voluntary departure of other sales representatives combined to reduce the requirement for severance costs. This adjustment was recorded in program expenses consistent with the original recording of the restructuring charges.

The accrual for restructuring and exit costs totaled approximately \$474,000 at September 30, 2003, 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, 2002	Adjustments	Payments	Balance at September 30, 2003
<S>	<C>	<C>	<C>	<C>
Administrative severance	\$ 1,670	\$ --	\$(1,434)	\$236
Exit costs	1,288	(137)	(913)	238
	-----	-----	-----	-----
	2,958	(137)	(2,347)	474
	-----	-----	-----	-----
Sales force severance	1,741	(473)	(1,268)	--
	-----	-----	-----	-----
Total	<u>\$ 4,699</u>	<u>\$ (610)</u>	<u>\$(3,615)</u>	<u>\$474</u>

</TABLE>

Use Of Non-GAAP Financial Information

This Form 10-Q contains non-GAAP financial information adjusted to exclude certain costs, expenses, gains and losses and other non-comparable items. This information is intended to enhance an investor's overall understanding of the Company's past financial performance and prospects for the future. For example, non-GAAP financial information is an indication of our baseline performance before items that are considered by us to be not reflective of our operational results. In addition, this information is among the primary indicators we use as a basis for planning and forecasting of future periods. This information is not intended to be considered in isolation or as a substitute for financial information prepared in accordance with GAAP.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of September 30, 2003, PDI's management, including its Chief Executive Officer and Chief Financial Officer, have 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, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion.

(b) 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 the Chief Executive Officer and Chief Financial Officer completed their evaluation.

Part II - Other Information

Item 1 - 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 Cefitin 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.

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 detailed 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 agreed to reimburse us for all reasonable costs and expenses incurred to date in defending these proceedings. Bayer has reimbursed us for legal expenses which we had expensed as incurred; (i) \$750,000 of the reimbursement was received in the first quarter of 2003 and (ii) \$540,000 of the reimbursement was received in October 2003. We are currently in discussions with Bayer regarding additional legal fee reimbursements; however, no agreement has been reached and therefore no additional amounts have been accrued to date.

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 was 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

38

November 20, 2002, and claims that we were misappropriating trade secrets in connection with our exclusive license agreement with Cellegy.

On May 8, 2003, we entered into a settlement and mutual release agreement with Auxilium (Settlement Agreement), by which the lawsuit and all related counter claims were dropped without any admission of wrongdoing by either party. The settlement terms included a cash payment which was paid upon execution of the Settlement Agreement as well as certain other additional expenses. We recorded a \$2.1 million charge in the first quarter of 2003 related to this settlement. Pursuant to the Settlement Agreement, we also agreed that we would (a) not sell, ship, distribute or transfer any Fortigel product to any wholesalers, chain drug stores, pharmacies or hospitals prior to November 1, 2003, and (b) pay Auxilium an additional amount per prescription to be determined based upon a specified formula, in the event any prescriptions are filled for Fortigel prior to January 26, 2004. As discussed in Note 4, on July 3, 2003, Cellegy was notified by the FDA that Fortigel had not been approved. We believe that we will not pay any additional amount to Auxilium as set forth in clause (b) above since Fortigel was not approved by the FDA on July 3, 2003, and it is management's belief that FDA approval of Fortigel will not be given prior to January 26, 2004, if at all. We do not believe that the terms of the Settlement Agreement will have any material impact on the success of our commercialization of the product if or when the FDA approves it. There can be no assurances that the FDA will approve the product at a later date.

Other Legal Proceedings

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 we to settle a proceeding for a material amount or were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on our future results of operations, financial condition or cash flows.

No amounts have been accrued for losses under any of the above mentioned matters, other than for the Auxilium litigation settlement reserve, as no other amounts are considered probable or reasonably estimable at this time.

Item 2 - Not Applicable

Item 3 - Not Applicable

Item 4 - Submission of Matters to a Vote of Security Holders

On July 15, 2003, the Company held its 2003 Annual Meeting of Stockholders. At the meeting Charles T. Saldarini, John M. Pietruski, and Frank J. Ryan were reelected as Class II Directors of the Company for three year terms with 12,663,586, 12,560,476, and 11,047,094 votes cast in favor of their election, respectively, and 87,959, 191,078, and 1,704,451 votes withheld, respectively. In addition, the appointment of PricewaterhouseCoopers LLP as independent auditors of the Company for fiscal 2003 was ratified with 9,911,917 votes in favor, 2,834,626 votes against and 5,001 votes withheld.

Item 5 - Not Applicable

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit

No.

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

39

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

During the three months ended September 30, 2003, the Company filed the following reports on Form 8-K:

Date	Item	Description
July 7, 2003	5	FDA "Not Approved" Letter For Fortigel
July 11, 2003	5	Revised 2003 EPS Guidance
July 29, 2003	5	Announcement for Contract Sales Agreements

40

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

November 5, 2003

PDI, INC.

By: /s/ Charles T. Saldarini

Charles T. Saldarini
Chief Executive Officer

By: /s/ Bernard C. Boyle

Bernard C. Boyle
Chief Financial and Accounting Officer

41

Exhibit 31.1

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 Form 10-Q for the quarter ended September 30, 2003 of PDI, Inc.;

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

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

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

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

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

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

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

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

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

/s/ Charles T. Saldarini

Charles T. Saldarini
Vice Chairman and Chief Executive Officer

Date: November 5, 2003

Exhibit 31.2

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 Form 10-Q for the quarter ended September 30, 2003 of PDI, Inc.;

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

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

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

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

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

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

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

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

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

/s/ Bernard C. Boyle

Bernard C. Boyle
Chief Financial Officer

Date: November 5, 2003

Exhibit 32.1

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

In connection with the Quarterly Report of PDI, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2003 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

November 5, 2003

Exhibit 32.2

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

In connection with the Quarterly Report of PDI, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2003 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

November 5, 2003