

**EXHIBIT B**

**FINANCIAL STATEMENTS**  
for  
**CDI Corp, parent**  
of  
**Management Recruiters International, Inc.**  
and  
**CDI Corp Guaranty**

# CDI CORP

## FORM 10-K (Annual Report)

Filed 03/06/14 for the Period Ending 12/31/13

Address	1717 ARCH STREET, 35TH FLOOR PHILADELPHIA, PA 19103-2768
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Symbol	CDI
SIC Code	7363 - Help Supply Services
Industry	Business Services
Sector	Services
Fiscal Year	12/31

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2013

or

Transition Report Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

for the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-05519

CDI Corp.

(Exact name of registrant as specified in its charter)

Pennsylvania  
(State of incorporation)

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

1717 Arch Street, 35th Floor, Philadelphia, PA 19103-2768  
(Address of principal executive offices)

Common stock, \$0.10 par value  
(Title of each class)

23-2394430  
(I.R.S. Employer Identification Number)

New York Stock Exchange  
(Name of exchange on which registered)

(215) 569-2200  
(Registrant's telephone number, including area code)

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

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

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  YES  NO

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files).  YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)  YES  NO

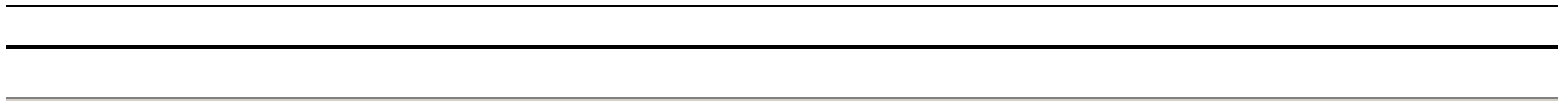
As of June 30, 2013, the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates was \$204.3 million computed by reference to the reported price at which the common equity was last sold on the New York Stock Exchange on June 28, 2013, which was the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares outstanding of each of the registrant's classes of common stock as of February 27, 2014 was as follows:

Common stock, \$0.10 par value	19,500,263 Shares
Class B common stock, \$0.10 par value	None

Documents Incorporated By Reference

Portions of the registrant's definitive proxy statement for its 2014 annual meeting of shareholders (to be filed with the Securities and Exchange Commission within 120 days after the registrant's fiscal year end of December 31, 2013) are incorporated by reference into Part III of this Form 10-K.



**CDI CORP.**  
**TABLE OF CONTENTS**

	<u>Page No.</u>
<a href="#"><u>Note About Forward—Looking Statements</u></a>	<u>2</u>
<b>Part I:</b>	
Item 1. <a href="#"><u>Business</u></a>	<u>3</u>
Item 1A. <a href="#"><u>Risk Factors</u></a>	<u>6</u>
Item 1B. <a href="#"><u>Unresolved Staff Comments</u></a>	<u>15</u>
Item 2. <a href="#"><u>Properties</u></a>	<u>15</u>
Item 3. <a href="#"><u>Legal Proceedings</u></a>	<u>15</u>
Item 4. <a href="#"><u>Mine Safety Disclosures</u></a>	<u>15</u>
<b>Part II:</b>	
Item 5. <a href="#"><u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></a>	<u>16</u>
Item 6. <a href="#"><u>Selected Financial Data</u></a>	<u>18</u>
Item 7. <a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<u>19</u>
Item 7A. <a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	<u>33</u>
Item 8. <a href="#"><u>Financial Statements and Supplementary Data</u></a>	<u>34</u>
Item 9. <a href="#"><u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></a>	<u>61</u>
Item 9A. <a href="#"><u>Controls and Procedures</u></a>	<u>61</u>
Item 9B. <a href="#"><u>Other Information</u></a>	<u>62</u>
<b>Part III:</b>	
Item 10. <a href="#"><u>Directors, Executive Officers and Corporate Governance</u></a>	<u>63</u>
Item 11. <a href="#"><u>Executive Compensation</u></a>	<u>63</u>
Item 12. <a href="#"><u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></a>	<u>63</u>
Item 13. <a href="#"><u>Certain Relationships and Related Transactions, and Director Independence</u></a>	<u>64</u>
Item 14. <a href="#"><u>Principal Accountant Fees and Services</u></a>	<u>64</u>
<b>Part IV:</b>	
Item 15. <a href="#"><u>Exhibits, Financial Statement Schedules</u></a>	<u>65</u>
<a href="#"><u>SIGNATURES</u></a>	<u>68</u>

### **Caution Concerning Forward – Looking Statements**

*This report (including Management's Discussion and Analysis of Financial Condition and Results of Operations) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements that address expectations or projections about the future, including, but not limited to, statements about our strategies for growth and future financial results (such as revenue, gross profit, operating profit, cash flow, and tax rate), are forward-looking statements. Some of the forward-looking statements can be identified by words like "anticipates," "believes," "expects," "may," "will," "could," "should," "intends," "plans," "estimates" and similar references to future periods. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions that are difficult to predict. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements. Important factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to: weakness in general economic conditions and levels of capital spending by clients in the industries we serve; weakness or volatility in the financial and capital markets, which may result in the postponement or cancellation of our clients' capital projects or the inability of our clients to pay our fees; the inability to successfully execute on our strategic plan or recently-announced realignment; the termination of a major client contract or project; delays or reductions in U.S. government spending; credit risks associated with our clients; competitive market pressures; the availability and cost of qualified labor; our level of success in attracting, training, and retaining qualified management personnel and other staff employees; changes in tax laws and other government regulations, including the impact of health care reform laws and regulations; the possibility of incurring liability for our business activities, including, but not limited to, the activities of our temporary employees; our performance on client contracts; negative outcome of pending and future claims and litigation; and government policies, legislation or judicial decisions adverse to our businesses. More detailed information about some of these and other risks and uncertainties may be found in our filings with the SEC, particularly in the "Risk Factors" section in Part I, Item 1A of this Form 10-K Report. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We assume no obligation to update such statements, whether as a result of new information, future events or otherwise, except as required by law.*

Unless the context otherwise requires, all references herein to "CDI," the "Registrant," the "Company," "we," "us" or "our" are to CDI Corp. and its consolidated subsidiaries.

## PART I.

### Item 1. Business

#### General

CDI Corp. (NYSE:CDI) is an integrated engineering and technology services organization providing differentiated, client-focused solutions in select global industries.

In December 2013, the Company announced that it will undertake a corporate realignment in the first quarter of 2014 to organize its business efforts more clearly into engineering and staffing services, which is expected to improve operational effectiveness and further optimize the Company's cost structure. See Note 5 - Restructuring and Other Related Costs in the notes to the consolidated financial statements included in Item 8 of this Form 10-K Report.

#### Services

CDI provides a range of integrated engineering and technology solutions and professional staffing services through an organizational platform focused on services offered to clients, geographic markets that reflect its clients' growth plans and select industries that are aligned with the Company's core capabilities. The Company's reporting segments are as follows:

- Global Engineering and Technology Solutions (GETS) - GETS provides engineering and information technology solutions for its clients that involve the production of deliverable work products or services performed at a CDI facility or at a client's facility under the supervision of CDI personnel. These solutions typically include analysis of a client's engineering or information technology needs and the development of a solution that generally ranges in duration from several months to multiple years. Depending on the industry, engineering services can include such functions as feasibility studies, technology assessment, conceptual design, cost estimating, preliminary design, execution planning, procurement optimization, detailed design, testing and validation of regulatory compliance, technology integration and operating and maintenance support. Information technology services can include assessments, execution of business application services, web development, service-desk support, quality assurance and testing and program management. GETS provides these solutions through a delivery model consisting of: centers of excellence, with concentrated skill sets required for larger, more complex projects; regional centers to service local needs of clients; client-centered offices to deliver site-specific services; and near-shore centers to leverage low-cost design resources.
- Professional Services Staffing (PSS) - PSS provides skilled technical and professional personnel to its clients for discrete periods of time to augment the client's workforce in times of project, seasonal, peak period or business cycle needs. These engagements can range from several months to multiple years in duration. PSS also provides permanent placement services. PSS provides professional staffing services to targeted industries that include managed services and managed staffing programs, functional staffing outsourcing and business advisory services. PSS provides these services through a delivery model that provides global staffing delivery focused on select engineering and technology skill sets and competencies.
- Management Recruiters International (MRI) - MRI is a global franchisor that does business as MRINetwork<sup>®</sup> and provides the use of its trademarks, business systems and training and support services to its franchisees who engage in the search and recruitment of executive, technical, professional and managerial personnel for employment by their clients. The MRI franchisees provide permanent placement services primarily under the brand names Management Recruiters<sup>®</sup>, Sales Consultants<sup>®</sup> and OfficeMates 5<sup>®</sup>. MRI also provides training and support, implementation services and back-office services to enable franchisees to pursue contract staffing opportunities.

The Company derives most of its revenue by providing these services to large and mid-sized companies located primarily in the United States (U.S.), Canada and the United Kingdom (UK).

#### Business Strategy

The Company's strategic growth plan includes focusing on high-potential growth opportunities in a discrete number of priority industries and selective expansion of the Company's geographic footprint to meet the global needs of the Company's core clients.

Key elements of the Company's strategic growth plan are as follows:

- Continue development of the client engagement model that is designed to build deeper and more strategic client relationships in targeted industries across the portfolio of CDI services.
- GETS will continue to focus on effectively delivering value-added engineering and information technology solutions services to the Company's clients.
- PSS will continue to provide global talent sourcing and delivery.
- Continue to prioritize investments in strategic industry verticals.

#### **Other Information**

The Company was incorporated in Pennsylvania on July 30, 1985. It is the successor registrant to CDI Corporation, which was incorporated in Pennsylvania on September 16, 1950.

#### *Clients/Markets*

The Company's clients consist primarily of: multi-national, national and regional companies; and U.S. Federal, state and local governments. The Company seeks to expand its service offerings of engineering and technology solutions as well as professional staffing within the Oil, Gas and Chemicals, Aerospace and Industrial Equipment, and Hi-Tech industries. The Company also does significant business in other industries, including the U.S. defense, infrastructure, transportation and financial services industries. Revenue from one client, International Business Machines Corporation (IBM), accounted for approximately 19% of total CDI consolidated revenue in 2013 .

MRI provides trademarks and business systems, as well as service, training, support and ancillary services to its franchisees, to enable them to be successful in their businesses. MRI seeks to sell new franchises and renew existing franchises. New franchisees have historically been brought into the MRI network primarily on a referral basis. MRI's business is not dependent on any single franchisee.

#### *Pricing*

The Company generally determines its pricing based on mark-ups of its employees' or contractors' hourly rates of pay and bill rates for staffing, project and outsourcing services. Permanent placement revenue is generally contingent upon filling an assigned position. If the client hires the candidate, the Company receives a fee based on an agreed-upon rate, which generally is a percentage of the candidate's first-year compensation. Clients typically invite several companies to bid for contracts, which the Company believes are awarded primarily on the basis of prior performance, reputation, value-added services, technological capability and price. Clients frequently award multi-vendor contracts.

MRI's revenue includes franchising revenue that consists of royalties and initial franchise fees. MRI receives royalty fees based on a percentage of the franchisee's permanent placement fees and any other revenue collected. New franchise agreements generally have a term of 10 to 15 years. Individual franchises may be acquired by qualified candidates both in the U.S. and internationally. The domestic pricing structure includes an initial fee and a royalty rate schedule.

#### *Competition*

The Company competes in global, national, and regional markets with numerous engineering and information technology outsourcing companies and with temporary staffing and permanent placement firms. All segments of the Company's operations face competition in attracting both clients and high-quality specialized employment candidates.

The engineering and information technology outsourcing business is highly fragmented. Certain of the Company's competitors have greater financial resources and offer a broader range of services and others are smaller and tend to be more specialized. The extent of the competition varies according to the particular markets and geographic area. The degree and type of competition is also influenced by the type and scope of a particular project.

The temporary and permanent placement businesses are very competitive and highly fragmented, with limited barriers to entry into the market. In many areas, the local companies are the strongest competitors. Price competition among companies and pricing pressures from clients are significant in the staffing services industry in which we compete.

The trend of clients who consolidate their purchases of engineering, information technology and staffing services with a single provider or with a small number of providers continues. This trend to consolidate purchases may make it more difficult for the Company to obtain or retain clients when competing with larger competitors. The Company believes it derives a competitive advantage from its lengthy experience with and long-standing commitment to the industries it serves, long-term relationships with its clients, technical capabilities, and national and international presence.

The Company's primary competitors include: Jacobs Engineering Group Inc.; AECOM Technology Corporation; Day & Zimmermann, Inc.; Gibbs and Cox, Inc.; Chicago Bridge & Iron Company N.V.; Belcan Corporation; S&B Engineers and Constructors, Ltd.; CIBER, Inc.; Computer Task Group, Inc.; ManpowerGroup, Inc.; Aerotek, Inc.; Adecco S.A.; Randstad Holding N.V.; Hays plc; Robert Half International, Inc.; Heidrick & Struggles International, Inc.; Korn/Ferry International; and Kforce, Inc.

#### *Safeguards-Business, Disaster and Contingency Planning*

CDI has a number of safeguards that seek to protect the Company from various system-related risks. Given the significant amount of data generated in the Company's key processes, including client-related projects, recruiting, payroll, and client invoicing, CDI has implemented redundant system processing capabilities designed to limit risk related to hardware failure. Additionally, CDI utilizes a third-party backup facility to periodically store critical data off-site in the event of a catastrophic issue at the primary location. CDI maintains and annually tests its Information Technology Disaster Recovery Plan for its core systems and associated data.

#### **Employees**

As of December 31, 2013, CDI had approximately 900 staff employees. In addition, CDI had approximately 9,000 employees and other workers engaged as billable personnel. The number of billable employees and other workers varies in relation to the number of projects and assignments in progress at any particular time.

#### **Access to Company Information**

CDI maintains a website at [www.cdicorp.com](http://www.cdicorp.com) and makes available free of charge on that website (under the "Investor Relations" tab) the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after CDI electronically files these materials with, or furnishes them to, the Securities and Exchange Commission. Also available on CDI's website are the Company's Corporate Governance Principles, Code of Conduct and the charters for the Audit Committee, Compensation Committee, Finance Committee, Executive Committee and Governance and Nominating Committee. The information contained on CDI's website, or on other websites linked to CDI's website, is not part of, or incorporated in, this Form 10-K Report.

## Item 1A. Risk Factors

*CDI's business involves a number of risks, many of which are beyond our control. The risks and uncertainties described below could individually or collectively have a material adverse effect on our business, assets, profitability or prospects. While these are not the only risks and uncertainties we face, management believes that the more significant risks and uncertainties are as follows:*

***CDI's business is heavily dependent on capital spending by clients in the industries we serve, and cuts in capital spending and economic downturns may result in the loss of revenue and profitability.***

The demand for CDI's services is highly dependent upon the level of capital spending by our clients, especially in our engineering project outsourcing business and in certain portions of our staffing business. The pace of client capital spending programs, new product launches and similar activities have a direct impact on our clients' needs for project outsourcing and both temporary and permanent employees. In recent years, there have been delays and cancellations of projects due to credit constraints and weak economic conditions experienced by some of our clients. Such delays and cancellations can adversely affect CDI's revenue and profitability.

***Unfavorable economic conditions could negatively affect CDI's business.***

Financial markets in the U.S., Europe and Asia experienced extreme disruption in recent years, causing severely tightened credit availability, increases in unemployment and general declines in the U.S. economy and economies around the world. While conditions have improved in many countries, the economic recovery has been somewhat slower and weaker than following previous economic downturns. If, in the event of unfavorable economic conditions, companies limit their spending on the services which CDI provides, this could have a material adverse effect on our financial and operating performance.

Our staffing businesses earn revenue when qualified candidates accept open positions with potential employers. These employers may postpone or cut back on hiring in an effort to cut costs, particularly during economic downturns. In addition, during periods of high unemployment, candidates may be less likely to take the risk of seeking new employment, creating a lack of qualified candidates. Both of these events could have a material adverse effect on our financial and operating performance.

In addition, our MRI segment derives royalty revenue from franchisees. If persons hoping to start MRI franchises are unable to obtain credit, they could be prevented from purchasing franchises, which could impede our growth in that sector. If current franchisees are unable to obtain credit, it could cause downsizing in their organizations, in turn negatively affecting MRI's royalty revenue, potentially having a material adverse effect on CDI's financial and operating performance.

While CDI manages its cost structure in response to reduced demand for our services, these efforts may not be successful in having us remain profitable or, if profitable, maintain our current profit margins.

***Our revenue is subject to uncertainties and cyclicity. Our results of operations depend on, among other factors, new contract awards and contract renewals, and the selection process and timing for performing these contracts are subject to contingencies beyond our control. In addition, our client contracts and arrangements may be adjusted, canceled or suspended by our clients, in most cases on short notice.***

A significant portion of our revenues is directly or indirectly derived from awards of long-term contracts. It is difficult to predict whether and when we will receive such awards due to the typically lengthy and complex bidding and selection process, which is affected by a number of factors, such as market conditions, clients' financing arrangements and governmental approvals. Because a meaningful portion of our revenue is generated from these contracts, CDI's results of operations and cash flows can fluctuate from quarter to quarter depending on the timing of contract awards and contract renewals.

Furthermore, substantially all of CDI's contracts are subject to cancellation or termination at the discretion of the client, typically on short notice. Many of our contracts, particularly in the staffing business, contain no minimum purchase obligations on the part of the client. Project contracts are generally subject to changes in the scope of services to be provided. Accordingly, we do not have a guaranteed backlog of business.

***Many of the industries we serve are cyclical, and fluctuations in commodity prices could also have a material adverse impact on our operating results.***

Many of the industries CDI serves (such as the oil, gas and chemical industries) historically have been, and will likely continue to be, cyclical in nature and vulnerable to general downturns in the domestic and international economies, such as what was experienced in recent years. Consequently, CDI's results of operations have fluctuated and may continue to fluctuate depending on the demand for services from these cyclical industries. For example, fluctuations in commodity prices (such as chemicals or oil and gas) can have a significant impact on our engineering outsourcing and staffing businesses, since those prices have a direct effect on our clients' decisions to invest in capital projects. Rising commodity prices can negatively impact the financial returns on those projects, which may result in projects being delayed or canceled, which in turn could have a material adverse impact on our operating results.

***If we are not able to successfully execute on our recently-announced realignment, our business and results of operations would be adversely affected.***

In December 2013, CDI announced that it will undertake a corporate realignment in 2014 to organize its business efforts more clearly into engineering and staffing services, in an effort to improve organizational effectiveness and to optimize the company's cost structure. If we are unable to successfully execute any or all of the initiatives in our corporate realignment, our revenues, operating results and profitability may be adversely affected. Even if we successfully implement these plans, we cannot guarantee that our revenue, operating results and profitability will improve.

***The loss of one or more major clients could have a material adverse effect on our financial results.***

The loss of one or more major clients or projects, or a significant decrease in the volume of business that we receive from such major clients or projects could have a material adverse effect on CDI's financial condition and results of operations. Revenue from one client, IBM, accounted for approximately 19% of total CDI consolidated revenue in 2013. Our current contract with IBM was extended at the end of 2011, with a new three-year term, but is subject to termination by IBM with or without cause at any time.

***CDI derives a substantial portion of its revenue and profits from government agencies. If adequate government funding is delayed or is not available, then our revenue and profits could decline.***

CDI is a party to many prime contracts and subcontracts involving U.S. Federal, state and local governments and their agencies and authorities. Such contracts are subject to various uncertainties, restrictions and regulations. All levels of government are facing budget pressures, and government contracts are exposed to risks associated with appropriations.

Contracts with the U.S. Federal Government, for example, are subject to the uncertainties of Congressional funding. In recent years, automatic budget cuts under sequestration and partial government shutdowns have resulted in the disruption of ongoing programs, facilities closures and personnel reductions in the defense sector and have had adverse consequences to our U.S. Government business.

Legislatures may appropriate funds for a given project on a year-by-year basis, even though the project may take more than one year to perform. In addition, public-supported financing, such as state and local municipal bonds, may be only partially raised to support existing infrastructure projects. As a result, a project we are currently working on may only be partially funded and thus additional public funding may be required in order to complete our contract. Governments are typically under no obligation to maintain funding at any specific level, and funds for government programs may even be eliminated. As a result, CDI's government clients may terminate our contracts for convenience or decide not to renew the contracts with little or no prior notice. Government contracts may also contain terms (such as broad indemnification obligations) that expose CDI to higher levels of risk and potential liability than non-government contracts.

***CDI's project outsourcing services expose the company to potential professional liability, product liability, warranty and other claims. Our project outsourcing business may encounter difficulties that result in additional costs, reductions in revenues, claims, disputes and the payment of damages.***

In connection with certain of our project outsourcing services, the Company engineers and performs services in various types of facilities, including major industrial facilities, where accidents or system failures can be disastrous. CDI also provides engineering and related services in connection with major products such as aircraft engines and naval ships. Any catastrophic occurrences in excess of insurance limits relating to locations or products which are engineered by CDI or locations where our services are performed could result in significant professional liability, product liability, warranty and other claims against us. Furthermore, the project outsourcing services CDI provides expose us to additional risks, including equipment failures, personal injuries, property damage and unforeseen engineering, architectural and environmental problems, each of which could significantly impact our performance and materially impact our financial statements.

CDI's project outsourcing services often involve complex design and engineering, significant procurement of equipment and supplies, and broad construction management. We may encounter difficulties in the design or engineering, equipment and supply delivery, schedule changes and other factors, some of which are beyond our control, that impact our ability to complete the project in accordance with the original delivery schedule. In addition, we often rely on third-party equipment manufacturers as well as other third-party subcontractors to assist with the completion of our contracts. Any delay by these equipment manufacturers or subcontractors to complete their respective portions of a project, or any failure by subcontractors to satisfactorily complete their respective portions of a project, as well as other factors beyond our control, may result in delays in the overall progress of such project, cause us to incur additional costs or both. These delays and additional costs may be substantial, and we may be required to compensate the client for these delays. While we may recover these additional costs from the responsible vendor, subcontractor or other third party, we may not be able to recover all of these costs in all circumstances.

In addition, some contracts may require our clients to provide us with design or engineering information or with equipment or materials to be used on the project. In some cases, the client may provide us with deficient design or engineering information or equipment, or may provide the information or equipment to us later than required by the project schedule. The client may also determine, after commencement of the project, to change various elements of the project. We are subject to the risk that we might be unable to obtain, through negotiation, arbitration, litigation or otherwise, adequate amounts to compensate us for the additional work or expenses incurred due to client requested change orders or failure by the client to timely provide required items. A failure to obtain adequate compensation for these matters could require CDI to record an adjustment to amounts of revenue and gross profit that were recognized in prior periods. Any such adjustments could have a material adverse effect on our results of operations and financial condition.

***We are subject to many different laws and regulations. The failure to comply with those laws and regulations could result in significant fines and penalties being imposed on CDI, harm to our reputation, loss of business and other adverse consequences. Changes in laws and regulations could also result in loss of business and increased costs.***

Many U.S., state, local and foreign laws and regulations govern and impact the business, operations and employees of CDI. These laws and regulations are often complex. CDI's policies mandate compliance with all applicable laws and regulations, and we maintain a compliance program and provide employees with training, guidelines and information about applicable laws and regulations. CDI has controls and procedures in place that are designed to detect and prevent legal violations and errors and misconduct by employees. However, these policies, programs, controls and procedures cannot provide assurance that employees or agents of CDI will not violate any laws or regulations. Government regulatory agencies can investigate CDI's compliance with laws and regulations and, if they believe there have been violations, can seek to impose significant fines and penalties (both civil and criminal) on us. Recent laws, such as the Dodd-Frank Act, increase the rewards for whistleblowing and could result in more claims of violations and in more government investigations. Compliance with laws and regulations, and responding to government investigations, even when no violations have occurred, can entail significant costs and expenses. If violations are alleged or found, CDI's reputation could be materially damaged for a considerable period of time, which in turn could directly or indirectly result in a loss of business for CDI. Clients and potential clients could decide to discontinue doing business with us, to decrease the amount of business they do with us or to not award new business to us. In some cases, we could be suspended or debarred from government contract work. Our senior management may be required to devote a significant amount of time to repairing the relationship with any client that decides to discontinue or decrease its business with CDI, thereby decreasing the amount of time senior management is able to devote to other facets of our business.

Government contracts are subject to specific procurement regulations, profit and cost controls, and a variety of other legal requirements. For example, for contracts with the U.S. Federal Government, we must comply with the Federal Acquisition Regulation, the Truth in Negotiations Act, the Cost Accounting Standards, the Service Contract Act and Department of Defense security regulations. We are also subject to government audits, investigations and proceedings and so-called "qui tam" actions brought by individuals or the government under the U.S. False Claims Act or under similar state and local laws. Government agencies routinely review and audit government contractors to determine whether allowable costs are in accordance with applicable regulations.

If we violate a law or regulation, fail to comply with a contractual or other requirement or do not satisfy an audit, a variety of penalties can be imposed, including monetary damages and criminal and civil penalties. In addition, our government contracts could be terminated, CDI could be suspended or debarred from government contract work, or payment of our costs could be disallowed. Any of these actions could harm CDI's reputation and could have a material adverse impact on our business, financial condition and results of operations.

CDI's business is also subject to licensing in many states and in certain foreign countries. There can be no assurance we will continue to obtain all necessary government licenses or that the cost of compliance with the licensing rules will not prove to be material in the future. Any failure to comply with licensing requirements, or any increase in the cost of compliance, could materially and adversely impact us.

New laws or regulations also could disrupt or reduce existing business done by CDI. Changes in laws or regulations could result in the imposition of new or additional employee benefits, licensing or tax requirements, thereby increasing our costs of doing business. There can be no assurance that we will be able to increase the fees charged to our clients in a timely manner or in a sufficient amount to cover increased costs as a result of any of the foregoing. CDI's staffing services entail employing a large number of individuals on a temporary basis and placing such individuals in clients' workplaces. Therefore, increased government regulation of the workplace or of the employer-employee relationship could materially and adversely impact CDI.

**CDI's existing credit facility includes restrictive and financial covenants. CDI's ability to access additional credit also could be limited.** On November 30, 2012, CDI entered into a credit agreement with Bank of America, N.A. under which we have access to a \$75.0 million revolving line of credit facility (the "Credit Facility") that terminates in November 2017. The terms of the Credit Facility include, among other provisions, specific limitations (subject to various exceptions) on creating liens on our assets, incurring indebtedness, making acquisitions and other investments, and disposing of assets other than in the ordinary course of business. Additionally, the Credit Facility requires CDI to maintain certain financial covenants, a maximum consolidated leverage ratio and a minimum consolidated fixed charge coverage ratio. The failure to comply with any of these covenants would cause a default under the Credit Facility. A default, if not waived or cured, could cause CDI's debt under the Credit Facility to become immediately due and payable. In such a situation, we may not be able to repay the debt or borrow sufficient funds to refinance the debt, and even if new financing is available, it may not be on terms acceptable to us. Additionally, if we need to obtain a waiver under the Credit Facility or if we seek other financing, if available, our cost of borrowing could significantly increase and we could face more restrictive covenants. This could materially and adversely affect CDI's results of operations and financial condition.

Although CDI is currently in compliance with the financial covenants of the Credit Facility, a deterioration of economic conditions could negatively impact our business, resulting in a failure to comply with these covenants in the future, which could in turn limit our ability to borrow funds under the Credit Facility. In such circumstances, we may not be able to secure alternative financing or may only be able to do so at significantly higher costs.

Although CDI generally finances much of its operations using cash provided by operations, at times we depend on the availability of credit to support our working capital needs, grow our business and to help fund business acquisitions. The state of the global credit markets could make it more difficult for us to access funds, refinance our existing indebtedness, enter into agreements for new indebtedness, or obtain funding through the issuance of debt securities. There is no guarantee that CDI will be able to renew the Credit Facility on terms as favorable as those in the existing facility, and if we are unable to do so, CDI's costs of borrowing and our business may be materially adversely affected.

***The failure of clients to pay amounts owed to CDI could cause us to experience significant losses.***

We typically bill our clients for our services in arrears and so are subject to the risk that our clients will delay or fail to pay our invoices. Accounts receivable represent the largest asset on CDI's balance sheet. While we take steps to evaluate and manage the credit risks relating to our clients, economic downturns such as the one experienced in recent years can adversely affect various industries and, within those industries, particular clients' ability to pay, which could reduce our ability to collect all amounts due from clients. There may also be delays in payments from clients, which would increase the working capital which CDI needs to maintain and could impact our liquidity. In addition, in the staffing business, there are sometimes intermediaries between us and the client, and therefore financial problems involving the intermediary company could pose credit risks to CDI.

***CDI has significant payroll-related costs, such as workers' compensation, unemployment taxes and health benefits, which are subject to increases caused by government regulation and other factors, and such increases could reduce our profits.***

In conducting its business, CDI pays a number of payroll-related costs and expenses, including unemployment taxes, workers' compensation and medical coverage for its personnel. Unemployment insurance premiums paid by employers typically increase during periods of increased levels of unemployment. Workers' compensation costs may increase in the future if states raise benefit levels and liberalize allowable claims. CDI maintains insurance relating to its exposure for losses associated with workers' compensation and medical coverage for its personnel, but this insurance coverage is subject to deductibles. We have established reserves for workers' compensation and medical coverage claims based on historical loss statistics and periodic independent actuarial valuations. While we believe that our assumptions and estimates are appropriate, significant differences in actual experience or significant changes in assumptions may materially and adversely affect our future financial results. Our future earnings could also be materially and adversely affected if we are not able to increase the fees charged to clients to absorb the increased costs related to unemployment insurance, workers' compensation and medical benefits. In addition, our future earnings could also be materially and adversely affected by future cost increases for these programs.

***Recent health care reform could increase the costs of CDI's staffing business.***

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Health Care Acts") were signed into U.S. law. The Health Care Acts represent comprehensive health care reform legislation that, in addition to other provisions, will require that we provide a minimum level of health care coverage to our temporary employees in the U.S. or incur penalties. Although we intend to pass through increased costs to our clients, there can be no assurance that we will be able to raise the fees charged to our clients in a sufficient amount to cover the increased costs. Since certain significant provisions of the Health Care Acts affecting employers' obligations will not become effective until 2015, we cannot yet determine the impact of the Health Care Acts on us, but the financial impact on our business, our profit margins and the demand for our staffing services could be significant.

***CDI is engaged in highly competitive businesses. Pricing pressures and increasing consolidation of purchasing by our clients could reduce our market share and profits.***

The engineering and IT project outsourcing business and the professional staffing business are highly competitive and fragmented, and particularly in the case of staffing services, have limited barriers to entry. CDI competes in global, national, regional and local markets with numerous engineering and IT outsourcing companies and with temporary staffing and permanent placement firms, some of which have greater financial and other resources than we have. Price competition among companies in our industry and pricing pressures from clients are significant. The number of clients that consolidate their purchases of engineering and IT outsourcing and staffing services with a single provider or with a small number of providers has continued to rise. This long-term trend to consolidate purchases may make it more difficult for CDI to obtain or retain clients in the future. We also face the risk that certain clients may decide to provide internally services similar to those we offer.

***We rely on information systems in our operations. Failure to protect these systems against security breaches could materially and adversely affect our business and results of operations. Additionally, if these systems fail or become unavailable for any significant period of time, our business could be harmed.***

The efficient operation of CDI's business is dependent on computer hardware and software systems. Information systems are inherently vulnerable to security breaches by computer hackers and cyber terrorists. Our defense and energy businesses may make CDI a target for cyber attacks. Cybersecurity attacks are evolving and include malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and corruption of data. We have devoted and will continue to devote significant resources to the security of our computer systems. We rely on industry-accepted security measures and technology to securely maintain confidential and proprietary information maintained on our information systems. However, these measures and technology may not always be adequate to properly prevent security breaches. In addition, the unavailability of the information systems or the failure of these systems to perform as anticipated for any reason could disrupt our business and could result in decreased performance and increased overhead costs, causing our business and results of operations to suffer. Any significant interruption or failure of our information systems or any significant breach of security could materially and adversely affect our business and results of operations. We maintain insurance to cover certain of these cybersecurity risks, but that insurance is subject to limits and self-insured retentions.

***Improper disclosure of employee and client data could result in liabilities and harm CDI's reputation.***

CDI's business involves the use, storage and transmission of information about its employees, candidates, clients and franchisees. The protection of such information, as well as CDI data, is critical to us. We have established policies and procedures to help protect the security and privacy of this information. However, the regulatory environment surrounding information security and personal data privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements. Privacy breaches may require notification and other remedies which can be costly and which may have other serious adverse consequences for our business, including regulatory penalties and fines and oversight by state or federal regulatory agencies.

We also, from time to time, export sensitive client data and technical information to recipients outside the U.S. CDI has a policy in place that requires an analysis prior to the export of any products, software, data, technology or other information from our systems to determine if any restrictions apply to the export. We have established policies and procedures to help protect the security and privacy of this information.

It is possible that CDI's security controls over personal and client data and other practices that we follow may not prevent the improper access to or disclosure of personally identifiable and client information. Such disclosure could harm CDI's reputation, cause us to lose clients or candidates, and subject us to liability under our contracts and laws that protect personal and client data, resulting in increased costs or loss of revenue.

***CDI relies on outside suppliers to perform certain administrative services, and we may suffer damage to our business if those suppliers fail to adequately perform those services.***

CDI outsources certain payroll, employee benefits administration, information technology and other back-office functions to companies that specialize in performing those services. The failure of such outside service providers to adequately perform such services could have a material adverse effect on our business and operations. Such third parties may also face risks relating to cybersecurity and possible breaches of data privacy laws which are similar to those risks described above for CDI. We seek to reduce those risks by requiring audits of the relevant third parties' information technology processes or by performing other due diligence inquiries regarding such processes, but there can be no assurance that such parties will not experience cybersecurity or data privacy breaches which could adversely affect our employees, clients and business.

***CDI's continued success is dependent on our ability to hire and retain qualified employees, both management and billable personnel. The loss of key personnel could have a material adverse effect on our business. In addition, our business may be harmed if CDI or its employees are unable to obtain the security clearances or other qualifications needed to perform services for our clients.***

CDI depends upon its ability to attract qualified personnel who possess the skills and experience required by its clients and to successfully bid for new client projects. CDI must continually evaluate its base of available qualified personnel to keep pace with changing client needs and emerging technologies. Competition for individuals with proven professional or technical skills always exists, and the demand for such individuals (particularly in certain engineering disciplines and geographic areas) is expected to remain strong in the foreseeable future. There can be no assurance that qualified personnel will continue to be available to CDI in sufficient numbers and on terms of employment acceptable to CDI.

Our operations also depend on the continued efforts of our executives and senior management. The loss of key members of CDI's management team may cause a significant disruption to our business. CDI also depends on the performance and productivity of its local managers and sales and recruiting personnel. The loss of key managers and field personnel may also jeopardize existing client relationships, which could cause revenues to decline.

A number of government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain. If CDI or its employees are unable to obtain or retain necessary security clearances, we may not be able to win certain new business, and our existing clients could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the required security clearances for our employees working on a particular contract, we may not derive the anticipated revenue or profit from such contract.

***CDI faces competition from lower-cost, offshore outsourcing companies, which may result in a loss of market share and reduced profitability.***

Over the years there has been increasing pressure from clients on their suppliers to outsource certain areas of their businesses to lower-cost offshore locations. Many engineering and IT outsourcing and staffing companies already have or are seeking offshore solutions to support their technology and business process functions, and as a result, a significant amount of domestic technology and engineering project work utilizes offshore capabilities as alternatives to domestic resources. CDI has established lower-cost outsourcing centers and has partnered with offshore companies to provide additional lower cost options to its clients. In connection with our strategic growth plan, we are seeking to expand our service delivery capabilities outside the U.S. Conducting business through offshore arrangements entails additional compliance and regulatory issues and may result in additional costs to CDI. CDI's partnering arrangements are subject to our ability to maintain good working relationships with our foreign partners and on our partners' ability to fulfill their obligations under our agreements with them. Changes in the supply and demand for offshore personnel with the training to perform the engineering and IT services sought by CDI's clients, as well as other factors affecting offshore labor costs, could raise CDI's costs, which would put pressure on our margins. Also, other offshore solution providers could develop direct relationships with CDI's clients resulting in a significant loss of CDI's market share and revenue.

***Foreign currency fluctuations, weak foreign economies and unfavorable political developments in connection with CDI's international operations could harm our financial condition.***

CDI's international operations are important to our business, and we expect that they will account for an increasing portion of our total revenue as we continue to implement our growth strategy. CDI's reported financial condition and results of operations are exposed to the effects (both positive and negative) of fluctuating exchange rates. CDI's exposure to foreign currency fluctuations currently relates primarily to operations denominated in Canadian dollars and British pounds sterling. Exchange rate fluctuations impact the U.S. dollar value of reported earnings derived from these foreign operations as well as our investment in the net assets related to these operations. CDI has at times in the past (including in 2013) engaged, and may in the future engage, in hedging activities with respect to certain of its foreign operations.

Our international operations are subject to a variety of other risks, including, but not limited to, the following:

- Recessions in foreign economies and the impact on costs of doing business in those countries;
- Difficulties in staffing and managing foreign operations;
- Changes in foreign government policies and regulatory requirements;
- The adoption of new, and the expansion of existing, trade restrictions and the failure to comply with U.S. export control laws;
- The lack of well-developed legal systems and less established or traditional business practices in some countries, which could make it difficult for CDI to enforce its contractual rights;
- Social, political and economic instability, including risks of loss due to civil strife, acts of war, insurrection and terrorism;
- Limitations on the movement of cash; and
- Logistical and communications challenges.

If our growth strategy is successful, we will earn an increasing portion of our income, and accumulate a greater portion of our cash flow, in foreign jurisdictions. Any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates and incremental cash tax payments. In addition, changes in legislation with respect to the tax treatment of foreign earnings may have a material impact on our U.S. tax expense and cash flows.

***CDI operates in many different jurisdictions and could be materially and adversely affected by violations of the U.S. Foreign Corrupt Practices Act, the UK Bribery Act and similar worldwide anti-corruption laws.***

The U.S. Foreign Corrupt Practices Act, the UK Bribery Act and similar worldwide anti-corruption laws generally prohibit companies and their intermediaries from making improper payments to government officials and others for the purpose of obtaining or retaining business. CDI's internal policies mandate compliance with these anti-corruption laws. We operate in parts of the world that have experienced governmental corruption to some degree, and in certain circumstances, strict compliance with anti-corruption laws may conflict with local customs and practices. Despite our training and compliance programs, there can be no assurance that our internal control policies and procedures will protect us from reckless or criminal acts committed by those of our employees or agents who violate our policies. Our continued expansion outside the U.S. (including in developing countries) in connection with our growth strategy could increase the risk of such violations in the future. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our results of operations or financial condition.

***The outcome of pending and future claims and litigation could have a material adverse effect on our business.***

From time to time, various types of legal claims arise in connection with the ordinary conduct of our business. Employees of CDI may make a variety of claims including workplace injury claims and employment-related claims such as discrimination, harassment, and wage and hour claims. Since CDI's staffing business involves employing a large number of individuals on a temporary basis and placing them in client workplaces where we have limited ability to control the workplace environment, these types of claims may arise more frequently in those business operations. CDI's clients may also make claims based on our alleged failure to perform in accordance with contract requirements. Since our project business often involves responsibility to produce specified deliverables, these types of claims may arise more frequently in those business operations. Clients in the staffing business may allege claims based on the conduct of staffing employees assigned to the client's worksite. In addition, CDI is subject to possible government claims or fines for violations of various laws.

***Disasters could interfere with CDI's ability to operate its business. Certain of our offices and clients operate in areas that may be impacted by severe weather conditions.***

Various types of natural or man-made disasters could interfere with CDI's continued ability to operate its business normally. For example, our ability to protect our data centers and information systems against damage from fire, power loss, telecommunications failure and other disasters is critical. In order to provide many of our services, we must be able to store, retrieve, process and manage large databases and periodically expand and upgrade our capabilities. Any damage to our data centers or any failure of our telecommunication links that interrupts our operations or results in an inadvertent loss of data could materially and adversely affect our ability to meet our clients' needs and their confidence in utilizing CDI for future services. While we have developed various backup plans, disaster recovery plans and a business continuity plan, there can be no assurance that we would be able to continue to operate our business smoothly in the face of certain natural or man-made disasters. Such business interruptions could materially and adversely affect our financial results and future prospects.

CDI services the oil, gas and chemical industries, each of which has a significant concentration of activities in the Gulf Coast of the U.S. CDI also has two major engineering centers in this area. The U.S. Gulf Coast has been impacted by several hurricanes in the past, and could be further impacted by severe weather in the future. Some scientists believe that increased hurricane activity is associated with climate change. Hurricanes in the U.S. Gulf Coast could negatively impact CDI's clients and our ability to serve them.

***Regulation regarding climate change may negatively impact our clients and our projects.***

Increasing concerns about climate change may result in additional regulation affecting our clients and our projects, particularly those who are involved in the exploration, production or refining of fossil fuels. Those new regulations could increase the cost of projects for our clients and, in some cases, prevent a project from moving forward, thereby potentially reducing the need for our services, which could in turn have a material adverse impact on our results of operation.

***Past and future acquisitions may not be successful.***

CDI has pursued and continues to pursue acquisitions as an element of its growth strategy, but we cannot provide assurances that we will be able to locate suitable acquisitions or that we will be able to consummate any such transactions on terms and conditions acceptable to us, or that such transactions will be successful. Adverse changes in the credit markets may make it more difficult and costly to finance acquisitions. Acquisitions involve a number of risks, including the diversion of management's attention from its existing operations, the failure to retain key personnel or clients of an acquired business, the failure to realize anticipated benefits, such as cost savings and revenue enhancements, the potentially substantial transaction costs associated with acquisitions, the assumption of unknown liabilities of the acquired business, and the inability to successfully integrate the business within CDI. Potential impairment could result if we overpay for an acquisition. There can also be no assurance that any past or future acquired businesses will generate anticipated revenues or earnings.

***We perform certain projects through joint ventures. Participation in joint ventures exposes CDI to additional risks and uncertainties.***

As is common in the project engineering industry, CDI executes certain projects jointly with other contractors through joint ventures or other teaming arrangements. These arrangements expose CDI to a number of risks, including the risk that our partners may not be able to fulfill their performance obligations under the joint venture agreements and related client contracts. There is also a risk that our joint venture partners may be incapable of providing the required financial support to the joint ventures. Another risk is that improper, illegal or unethical actions by our joint venture partners would have a negative impact on the reputation of the joint venture and CDI. Disputes can arise not only between CDI and its joint venture partners, but also between the joint ventures and the clients.

***We bear the risk of cost overruns in fixed-price contracts.***

CDI sometimes enters into fixed-price contracts with clients, primarily for engineering project services. Revenue recognized under fixed-price contracts accounted for less than 5% of 2013 consolidated revenue. Under these fixed-price contracts, prices are established based on cost and scheduling estimates, which in turn are based in part on assumptions about the prices and availability of skilled personnel, equipment and materials. If our price estimates for a particular project prove to be inaccurate, if there are errors or ambiguities as to contract specifications, or if there are unanticipated technical problems, then cost overruns may occur, and we could experience reduced profits or a loss for that project. Cost overruns may also be caused by changes in the scope of the project after the contract has been entered into or by a failure of the parties to adequately define and agree upon the entire scope of the project at inception. In those cases, there may be disputes between the parties over who should pay for the cost overruns. We will attempt to negotiate change orders to recover the additional costs, but there can be no assurance that we will be successful in these negotiations with our clients. In general, fixed-price contracts can offer greater profit potential but also entail more inherent risk both in terms of possible financial losses and the potential for significant disputes with clients than contracts containing pricing on a time-and-materials basis.

***A charge for impairment of goodwill or other intangible assets could have a material adverse effect on our reported results of operations.***

We are required to test the goodwill and other indefinite-lived intangible assets carried on our consolidated balance sheets for possible impairment on an annual basis based upon a fair value approach. As of December 31, 2013, CDI had \$77.4 million of goodwill and other intangible assets, representing 19.1% of our total assets of \$405.8 million.

CDI has chosen to perform its annual goodwill and other indefinite-lived intangible assets impairment testing by reporting unit as of July 1 of each fiscal year. We are also required to test for impairment between annual tests if events occur or circumstances change that would indicate that it is more likely than not that the fair value of a reporting unit was below its carrying value. Examples of events or circumstances include, but are not limited to: adverse changes in business climate, regulatory environment or legal factors; unanticipated competition; loss of key personnel; and a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of. Other factors that could impact an impairment include, but are not limited to, significant underperformance relative to projected future operating results, significant changes in the manner of use of acquired assets or the strategy for our overall business, significant negative industry or economic trends, a significant decline in our stock price for a sustained period and decreases in our market capitalization below the recorded amount of our net assets for a sustained period. If the fair value of CDI's reporting units were to be less than their book value, we could be required to record a non-cash impairment charge. The amount of any impairment could be significant and could have a material adverse effect on our financial results for the period in which the charge is taken.

***Estimates of our income tax liabilities are subject to various uncertainties and actual results could vary significantly from these estimates.***

When we prepare our financial statements, we estimate our income tax liabilities with respect to the various jurisdictions in which we do business. Significant judgment is required in determining the provision for income tax liabilities in our financial statements and in forecasting our effective income tax rate in a given period. The provision for income taxes and tax liability in the future could be materially and adversely affected by numerous factors, including changes in tax laws, regulations or accounting principles, changes in the valuation of deferred tax assets and liabilities and audits by taxing authorities. We may not be able to generate sufficient profits in the future to realize the benefit of our net deferred tax assets.

***If CDI fails to maintain an effective system of internal controls over financial reporting, it may not be able to accurately report its financial results or prevent fraud. As a result, investors could lose confidence in our financial reporting, which could harm our business and the trading price of our stock.***

Effective internal controls are necessary for CDI to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. We devote significant attention to establishing and maintaining effective internal controls. Any failure to implement required new or improved controls or difficulties encountered in their implementation could affect our operating results or cause us to fail to meet reporting obligations in future periods. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the market price of CDI stock.

***CDI may not be able to obtain the insurance coverages necessary to manage its risks.***

CDI relies on insurance to help manage its risks and to limit our exposure to significant claims. The future availability and cost of such insurance is subject to market forces and our claims experience. There can be no assurance that CDI can always obtain and maintain appropriate insurance coverage, including errors and omissions insurance, in order to effectively manage the risks of its business.

In addition, CDI has elected to retain a portion of losses that may occur through the use of various deductibles, limits and retentions under these programs. As a result, we may be subject to future liability for which CDI is only partially insured, or completely uninsured. Our insurers are subject to business risk. One or more of our insurers may be unable to fulfill their insurance obligations due to insolvency or otherwise. To the extent we are not insured against a loss or any of our insurers fails to provide coverage, CDI's financial condition and results of operations could be materially and adversely affected.

***A significant portion of CDI's common stock is owned by related parties, and they could vote their shares in a way that is adverse to the interests of other shareholders.***

Certain of CDI's directors and trusts, for which some of our directors serve as trustee, own a substantial portion of CDI's outstanding common stock. By virtue of this stock ownership, such shareholders have the power to significantly influence our affairs and are able to influence the outcome of matters required to be submitted to shareholders for approval, including the election of directors and the amendment of our Articles of Incorporation or Bylaws. Such shareholders could exercise influence over CDI in a manner adverse to the interests of our other shareholders.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The Company maintains major facilities in the following locations, all of which are leased:

<b>Segment</b>	<b>Location</b>	<b>Description</b>
Corporate	Philadelphia, Pennsylvania	Executive offices
Corporate/GETS/MRI	Philadelphia, Pennsylvania	Corporate offices/Engineering center/MRI offices
GETS	Ebensburg, Pennsylvania	Engineering center
GETS	Baton Rouge, Louisiana	Engineering center
GETS	Cincinnati, Ohio	Engineering center
GETS	Houston, Texas	Engineering center
Corporate/GETS	Cross Lanes, West Virginia	Shared services center/Hi-Tech service-desk operations

Additionally, each reporting segment maintains numerous other active facilities and locations under operating lease agreements. Most of the leased space is devoted to engineering design, recruiting, administrative and back-office functions, sales and marketing. Most of these facilities are leased for terms ranging from three to ten years. The Company believes that its facilities are adequate to meet its current and near-term needs.

A few of the Company's offices accommodate more than one operating segment. In such cases, square-foot usage is allocated among the segments, primarily based on utilization.

**Item 3. Legal Proceedings**

The Company is subject to various legal proceedings and claims that have arisen in the ordinary course of business. Although management cannot predict the timing or outcome of these matters with certainty, management does not believe that the final resolution of these matters, individually or in the aggregate, would have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

**Item 4. Mine Safety Disclosures**

Not Applicable.

## PART II.

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### **Market Information**

Shares of CDI's common stock are traded on the New York Stock Exchange under the trading symbol "CDI". The high and low sales price per share of the Company's common stock for each quarter during the last two years are shown in the table below, together with dividend information for each period.

	High	Low	Cash Dividends
<b>2013</b>			
First quarter	\$ 17.83	\$ 16.02	\$ —
Second quarter	17.28	13.35	0.13
Third quarter	16.45	13.36	0.13
Fourth quarter	19.19	14.95	0.13
<b>2012</b>			
First quarter	18.25	13.36	0.13
Second quarter	18.61	14.75	0.13
Third quarter	17.99	15.55	0.13
Fourth quarter	18.00	14.98	0.26

#### **Dividends**

Cash dividends have been paid quarterly during the past two years. During December 2012, the Company accelerated the payment of the first quarter 2013 dividend typically paid in March in the amount of \$0.13 per share to holders of record as of the close of business on December 14, 2012. The declaration and payment of future dividends will be at the discretion of the Company's Board of Directors and will depend upon many factors, including the Company's earnings, cash flows, financial condition and capital requirements. The Company maintains a Credit Agreement with Bank of America, N.A. that limits the Company with respect to, among other things, making dividend payments that immediately after giving effect thereto, cause or continue to cause an event of default, as that term is defined in the Credit Agreement. See Item 7, Liquidity and Capital Resources, for a further description of the restrictions under the Credit Agreement.

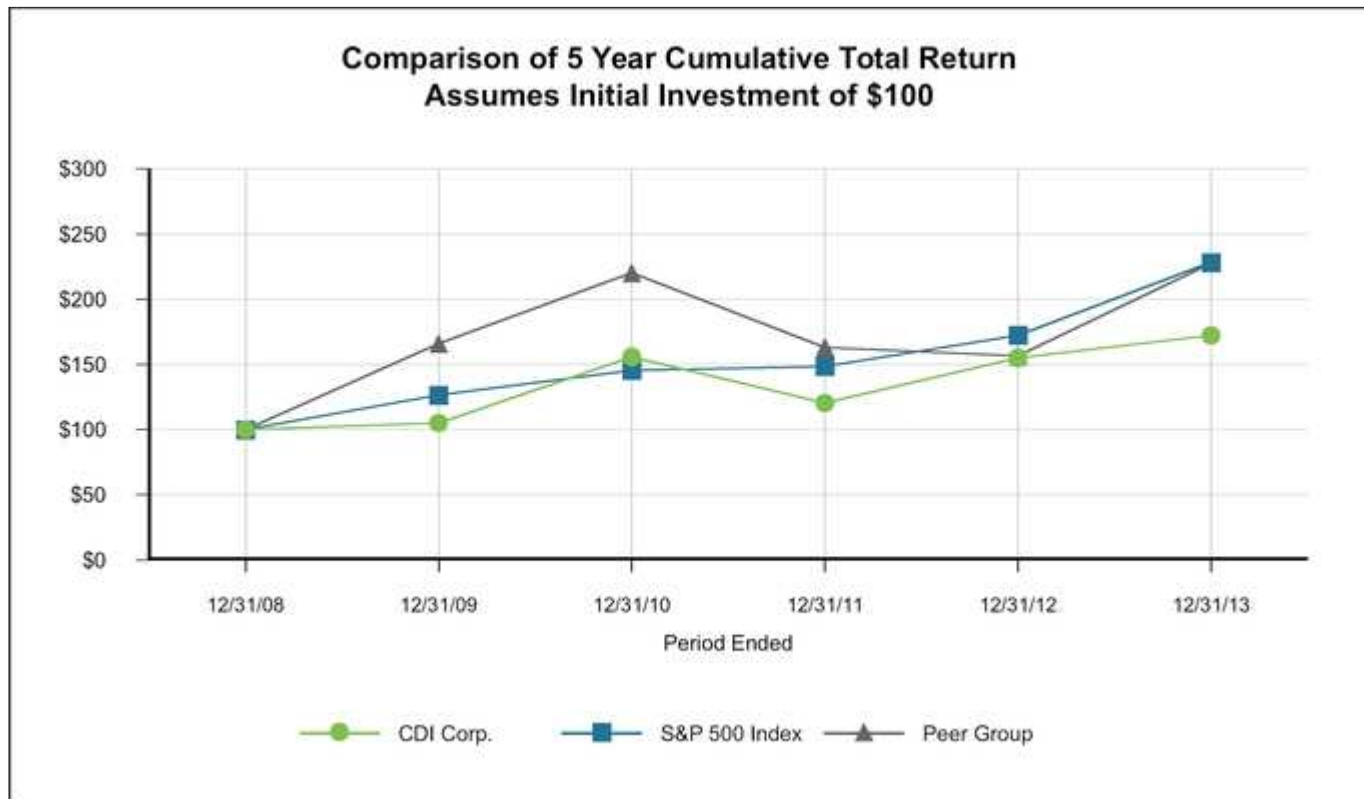
#### **Shareholders**

As of February 26, 2014, there were 360 shareholders of record of the Company's common stock. A single record shareholder account may however represent multiple beneficial owners, including holders of shares in street name accounts. Including those multiple beneficial owners, the Company estimates that the total number of shareholders of the Company's common stock on February 26, 2014 was approximately 4,000. See Part III, Item 12 and Note 7—Share-Based Compensation, in the notes to the consolidated financial statements included in Item 8 of this Form 10-K Report, for information relating to securities authorized for issuance under the Company's equity compensation plans.

**Comparative Stock Performance**

The following graph sets forth the cumulative total shareholder return (assuming an investment of \$100 on December 31, 2008 and the reinvestment of any dividends) for the last five fiscal years on: CDI stock, the Standard & Poor's (S&P) 500 Index, and CDI's peer group.

CDI's peer group (Peer Group) is comprised of the following companies: AECOM Technology Corp.; Chicago Bridge & Iron Company N.V.; CIBER, Inc.; Computer Task Group, Inc.; Heidrick & Struggles International, Inc.; Jacobs Engineering Group, Inc.; Kforce, Inc.; Korn/Ferry International; ManpowerGroup, Inc.; and Robert Half International, Inc.



	December 31,					
	2008	2009	2010	2011	2012	2013
CDI Corp.	\$ 100.00	\$ 104.96	\$ 155.76	\$ 120.28	\$ 155.00	\$ 172.11
S&P 500 Index - Total Return	100.00	126.46	145.51	148.59	172.37	228.19
Peer Group	100.00	165.94	220.27	163.00	156.38	227.72

**Recent Sales of Unregistered Securities and Use of Proceeds from Registered Securities**

None.

**Purchases of Equity Securities by the Issuer**

The Company did not repurchase any of the Company's common stock during the quarter ended December 31, 2013 .

**Item 6. Selected Financial Data**

The following is selected financial data derived from the Company's audited consolidated financial statements for each of the last five years. The data should be read in conjunction with the Company's consolidated financial statements and accompanying notes thereto included in Item 8 of this Form 10-K Report and with Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Form 10-K Report. The data presented below is in thousands, except for per share data.

	Year ended December 31,				
	2013	2012	2011	2010	2009
<b>Earnings Data:</b>					
Revenue	\$ 1,087,859	\$ 1,104,958	\$ 1,059,803	\$ 926,289	\$ 884,950
Net Income (loss) <sup>(1), (2), (3), (4), (5), (6)</sup>	\$ 12,948	\$ 19,433	\$ 15,000	\$ (10,814)	\$ (19,919)
Income (loss) attributable to the noncontrolling interest	\$ 64	\$ 317	\$ 167	\$ 44	\$ (17)
Net income (loss) attributable to CDI	\$ 12,884	\$ 19,116	\$ 14,833	\$ (10,858)	\$ (19,902)
<b>Earnings (loss) per common share:</b>					
Basic	\$ 0.66	\$ 0.99	\$ 0.77	\$ (0.57)	\$ (1.05)
Diluted	\$ 0.65	\$ 0.97	\$ 0.77	\$ (0.57)	\$ (1.05)
Weighted-average shares outstanding - Basic	19,442	19,344	19,144	19,015	18,932
Weighted-average shares outstanding - Diluted	19,739	19,745	19,356	19,015	18,932
<b>Cash dividends paid per common share</b>	<b>\$ 0.39</b>	<b>\$ 0.65</b>	<b>\$ 0.52</b>	<b>\$ 0.52</b>	<b>\$ 0.52</b>
<b>Balance Sheet Data:</b>					
Total assets	\$ 405,807	\$ 400,705	\$ 392,516	\$ 398,511	\$ 375,034
Long-term obligations	\$ 17,397	\$ 16,717	\$ 15,524	\$ 15,496	\$ 12,945
Total equity	\$ 285,174	\$ 279,780	\$ 267,031	\$ 258,927	\$ 274,896

<sup>(1)</sup> In 2013, the Company recorded a \$5.7 million charge to operations related to the 2013 Restructuring Plan announced in December 2013.

<sup>(2)</sup> In 2013, the Company recorded a \$3.3 million benefit to operations related to the settlement of legal claims pursued by the Company.

<sup>(3)</sup> In 2013, the Company recorded a \$1.8 million benefit to operations related to the reduction of an acquisition-related earnout liability.

<sup>(4)</sup> In 2011, the Company recorded a \$8.1 million charge to operations related to the strategic plan announced in December 2011.

<sup>(5)</sup> In 2011, the Company recorded a \$9.7 million benefit to operations related to the successful legal appeal to reduce a fine imposed by the United Kingdom Office of Fair Trade.

<sup>(6)</sup> In 2010, the Company recorded a \$8.3 million goodwill impairment charge related to its CDI AndersElite Limited business.

## CDI CORP. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and the accompanying notes thereto included in Part II, Item 8 of this Form 10-K Report.*

#### **Executive Overview**

##### *Business Overview*

CDI is an integrated engineering and technology services organization providing differentiated, client-focused solutions in select global industries. The Company provides engineering and information technology solutions and staffing services to clients in the Oil, Gas and Chemical (OGC), Aerospace and Industrial Equipment (AIE), and Hi-Tech industry verticals as well as in "Other" industry verticals that primarily include the infrastructure, U.S. defense, transportation and financial services industries.

The Company operates through its three reporting segments: Global Engineering and Technology Solutions (GETS), Professional Services Staffing (PSS) and Management Recruiters International (MRI). GETS provides engineering and information technology solutions for its clients that involve the production of deliverable work products or services performed at a CDI facility or at a client's facility under the supervision of CDI personnel. PSS provides skilled technical and professional personnel to its clients for discrete periods of time to augment the client's workforce in times of project, seasonal, peak period or business cycle needs. MRI is a global franchisor that provides the use of its trademarks, business systems and training and support services to its franchisees who engage in the search and recruitment of executive, technical, professional and managerial personnel for employment by their clients.

The Company's strategic growth plan includes focusing on high-potential growth opportunities in the strategic industry verticals and selective expansion of the Company's geographic footprint to meet the global needs of the Company's core clients.

The Company's results of operations can be affected by economic conditions, including macroeconomic conditions, credit market conditions and levels of business confidence. There continues to be economic uncertainty in some of the markets where we operate. The Company will continue to monitor this uncertainty to position itself to respond to changing conditions.

##### *Fiscal Year 2013 Overview*

Revenue in 2013 decreased by \$17.1 million or 1.5% as compared to 2012 due to decreases in all three segments, primarily MRI. Gross profit decreased by \$12.8 million and gross profit margin decreased to 19.0% , primarily due to a shift in mix to lower margin business within GETS and PSS and a decrease in MRI business. Operating profit in 2013 was \$20.9 million as compared to \$32.3 million in 2012, primarily reflecting the decrease in gross profit. Net income attributable to CDI was \$12.9 million in 2013 as compared to \$19.1 million in 2012.

In December 2013, the Company announced that it will undertake a corporate realignment in the first quarter of 2014 (the "2013 Restructuring Plan") to improve operational effectiveness and further optimize the Company's cost structure. In the fourth quarter of 2013, the Company recorded a charge of \$5.7 million to "Restructuring and other related costs" in the consolidated statement of operations. Implementation of the 2013 Restructuring Plan is expected to be completed during 2014 and include additional charges of approximately \$1 million to \$3 million in 2014 related to the consolidation of facilities.

## CDI CORP. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

### Results of Operations

#### Fiscal Year 2013 versus 2012

#### Consolidated Results of Operations

The table that follows presents changes in revenue by segment along with selected financial information and key metrics for 2013 and 2012 :

	2013		2012		Increase (Decrease)	
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
Revenue:						
GETS	\$ 321,289	29.5%	\$ 325,046	29.4%	\$ (3,757)	(1.2)%
PSS	708,598	65.1	710,268	64.3	(1,670)	(0.2)
MRI	57,972	5.3	69,644	6.3	(11,672)	(16.8)
Total Revenue	\$ 1,087,859	100.0	\$ 1,104,958	100.0	\$ (17,099)	(1.5)
Gross profit	\$ 206,641	19.0	\$ 219,409	19.9	\$ (12,768)	(5.8)
Operating and administrative expenses <sup>(1), (2)</sup>	\$ 180,009	16.5	\$ 187,143	16.9	\$ (7,134)	(3.8)
Restructuring and other related costs <sup>(3)</sup>	\$ 5,716	0.5	\$ —	—	\$ 5,716	NM
Operating profit	\$ 20,916	1.9	\$ 32,266	2.9	\$ (11,350)	(35.2)
Net income attributable to CDI	\$ 12,884	1.2	\$ 19,116	1.7	\$ (6,232)	(32.6)
Cash flow provided by operations	\$ 16,100		\$ 37,137		\$ (21,037)	(56.6)
Effective income tax rate	37.3%		39.3%			
Pre-tax return on net assets <sup>(4)</sup>	8.8%		13.8%			

<sup>(1)</sup> In 2013, the Company's GETS segment recorded a \$3.3 million benefit related to the settlement of legal claims pursued by the Company.

<sup>(2)</sup> In 2013, the Company's GETS segment recorded a \$1.8 million benefit related to the reduction of an acquisition-related earnout liability.

<sup>(3)</sup> In 2013, the Company recorded a \$5.7 million charge related to the 2013 Restructuring Plan announced in the fourth quarter of 2013.

<sup>(4)</sup> Income before income taxes for the year, divided by the average net assets at the beginning and end of the year for the prior 12 consecutive months. Net assets include total assets minus total liabilities excluding cash and cash equivalents, income tax accounts and debt.

NM—Not meaningful.

Revenue decreased in all three segments in 2013 as compared to 2012, primarily MRI. MRI revenue decreased due primarily to a decline in contract staffing revenue. The revenue decline in GETS was predominantly attributable to reduced spending by the Federal Government due to the sequestration and reduced spending by state and local governments on infrastructure engineering activities in the "Other" industry verticals, partially offset by strong growth in the OGC industry vertical. PSS revenue declined slightly, primarily due to decreased demand by a large client in the Hi-Tech industry vertical that is attributed to a reduction in their business, decreases in AIE and the "Other" industry verticals, partially offset by strong growth in the OGC industry vertical.

Gross profit dollars decreased in 2013 as compared to 2012 due primarily to the decrease in higher margin business in GETS as a result of reduced Federal, state and local government spending, a shift in mix to lower margin business in PSS and lower contract staffing and permanent placement revenue in MRI. Gross margin decreased primarily due to the shift in mix to lower margin business within GETS and PSS and the higher rate of decline in MRI business.

Excluding the impact of the 2013 Restructuring Plan and settlement of legal claims, operating profit decreased in 2013 primarily due to reduced gross profit partially offset by a reduction in variable operating expenses.

The effective income tax rate for both periods was unfavorably impacted by losses in foreign jurisdictions for which no tax benefit had been recognized and reductions to deferred tax assets for stock-based compensation grants that expired with no corresponding tax benefit. The 2013 rate was favorably impacted by federal employer tax credits and a reduction in the reserve for uncertain tax positions.

#### Corporate

Corporate expenses consist of operating and administrative expenses that are not allocated to the reporting units under segment reporting. Corporate expenses increased to \$25.4 million for 2013 from \$24.2 million for 2012. Corporate expenses in 2013 included \$1.0 million related to the 2013 Restructuring Plan. Excluding the impact of the 2013 Restructuring Plan, corporate expenses increased slightly in 2013 as compared to 2012.

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## CDI CORP. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

### Segment Results of Operations

#### Global Engineering and Technology Solutions (GETS)

The following table presents changes in revenue by industry vertical, cost of services, gross profit, operating and administrative expenses and operating profit for GETS in 2013 and 2012 :

	2013		2012		Increase (Decrease)	
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
<b>Revenue:</b>						
Oil, Gas and Chemicals (OGC)	\$ 122,478	38.1%	\$ 110,931	34.1%	\$ 11,547	10.4 %
Aerospace and Industrial Equipment (AIE)	74,729	23.3	72,349	22.3	2,380	3.3
Hi-Tech	30,409	9.5	32,829	10.1	(2,420)	(7.4)
Other	93,673	29.2	108,937	33.5	(15,264)	(14.0)
Total revenue	321,289	100.0	325,046	100.0	(3,757)	(1.2)
Cost of services	231,488	72.0	231,328	71.2	160	0.1
Gross profit	89,801	28.0	93,718	28.8	(3,917)	(4.2)
Operating and administrative expenses <sup>(1), (2)</sup>	62,519	19.5	67,993	20.9	(5,474)	(8.1)
Restructuring and other related costs <sup>(3)</sup>	2,132	0.7	—	—	2,132	NM
Operating profit	\$ 25,150	7.8	\$ 25,725	7.9	\$ (575)	(2.2)

<sup>(1)</sup> In 2013, the Company's GETS segment recorded a \$3.3 million benefit related to the settlement of legal claims pursued by the Company.

<sup>(2)</sup> In 2013, the Company's GETS segment recorded a \$1.8 million benefit related to the reduction of an acquisition-related earnout liability.

<sup>(3)</sup> In 2013, the Company's GETS segment recorded a \$2.1 million charge related to the 2013 Restructuring Plan announced in the fourth quarter of 2013.

NM—Not meaningful.

Revenue decreased in 2013 as compared to 2012 primarily due to the decrease in "Other" industry verticals offset partially by growth in the OGC industry vertical. Revenue in the "Other" industry verticals decreased primarily due to reduced spending by the Federal Government due to the sequestration and reduced spending by state and local governments on infrastructure engineering activities. The increase in OGC revenue was driven by increased demand from existing refinery and transportation clients. AIE revenue growth was primarily due to growth in the commercial aviation industry, partially offset by reduced government agency and defense spending. Hi-Tech revenue decreased in 2013 as compared to 2012 due primarily to decreased demand from existing clients.

Gross profit dollars and margin decreased primarily due to the decline in higher margin data acquisition and analysis solutions, infrastructure engineering activities and Federal Government activities.

Excluding the impact of the reduction of the earnout liability and the settlement of legal claims, operating and administrative expenses decreased slightly in 2013 as compared to 2012.

Excluding the impact of the claims settlement, 2013 Restructuring Plan and earnout liability reduction, the decrease in operating profit in 2013 compared to 2012 was primarily due to the decline in gross profit.

**CDI CORP. AND SUBSIDIARIES**

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

**Professional Services Staffing (PSS)**

The following table presents changes in revenue by industry vertical, cost of services, gross profit, operating and administrative expenses and operating profit for PSS in 2013 and 2012 :

	2013		2012		Increase (Decrease)	
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
<b>Revenue:</b>						
Oil, Gas and Chemicals (OGC)	\$ 144,411	20.4%	\$ 117,240	16.5%	\$ 27,171	23.2 %
Aerospace and Industrial Equipment (AIE)	74,784	10.6	84,235	11.9	(9,451)	(11.2)
Hi-Tech	277,782	39.2	291,839	41.1	(14,057)	(4.8)
Other	211,621	29.9	216,954	30.5	(5,333)	(2.5)
Total revenue	708,598	100.0	710,268	100.0	(1,670)	(0.2)
Cost of services	619,052	87.4	616,083	86.7	2,969	0.5
Gross profit	89,546	12.6	94,185	13.3	(4,639)	(4.9)
Operating and administrative expenses	74,531	10.5	73,657	10.4	874	1.2
Restructuring and other related costs <sup>(1)</sup>	2,394	0.3	—	—	2,394	NM
Operating profit	\$ 12,621	1.8	\$ 20,528	2.9	\$ (7,907)	(38.5)

<sup>(1)</sup> In 2013, the Company's PSS segment recorded a \$2.4 million charge related to the 2013 Restructuring Plan announced in the fourth quarter of 2013. NM—Not meaningful.

Revenue decreased in 2013 as compared to 2012 driven by a decline in the Hi-Tech, AIE and "Other" industry verticals, partially offset by an increase in the OGC industry vertical. The decline in Hi-Tech revenue was primarily due to decreased demand by a large client that is attributed to a reduction in their business. AIE revenue declined primarily due to the termination of an existing client contract. Revenue in "Other" industry verticals decreased due primarily to the impact of the completion of a long-term project for a client in the financial services industry. OGC revenue growth was primarily due to increased demand for pipeline-related inspection, maintenance and site services.

Gross profit dollars and margin decreased in 2013 as compared to 2012 primarily due to a shift in mix to lower margin business and a reduction of permanent placement revenues. The shift in mix to lower margin business primarily relates to a shift in mix from higher margin non-program staffing clients to lower margin program staffing clients.

Operating and administrative expenses increased slightly during 2013 as compared to 2012.

Excluding the impact of the 2013 Restructuring Plan, operating profit declined primarily due to the decline in gross profit.

**CDI CORP. AND SUBSIDIARIES**

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

**Management Recruiters International (MRI)**

The following table presents changes in revenue by service type, cost of services, gross profit, operating and administrative expenses and operating profit for MRI in 2013 and 2012 :

	2013		2012		Increase (Decrease)	
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
Revenue:						
Contract Staffing	\$ 44,328	76.5%	\$ 53,646	77.0%	\$ (9,318)	(17.4)%
Royalties and Franchise Fees	13,644	23.5	15,998	23.0	(2,354)	(14.7)
Total revenue	57,972	100.0	69,644	100.0	(11,672)	(16.8)
Cost of services	30,678	52.9	38,138	54.8	(7,460)	(19.6)
Gross profit	27,294	47.1	31,506	45.2	(4,212)	(13.4)
Operating and administrative expenses	18,530	32.0	21,305	30.6	(2,775)	(13.0)
Restructuring and other related costs <sup>(1)</sup>	215	0.4	—	—	215	NM
Operating profit	\$ 8,549	14.7	\$ 10,201	14.6	\$ (1,652)	(16.2)

<sup>(1)</sup> In 2013, the Company's MRI segment recorded a \$0.2 million charge related to the 2013 Restructuring Plan announced in the fourth quarter of 2013. NM—Not meaningful.

Revenue decreased in 2013 as compared to 2012 due primarily to a decline in contract staffing revenue and to a lesser extent, a reduction in permanent placement royalty revenue.

Gross profit dollars decreased in 2013 as compared to 2012 due to lower contract staffing revenue and lower permanent placement royalty revenue. MRI ' s gross profit margin increased in 2013 as compared to 2012 due to a change in the revenue mix as a result of the significant decline in contract staffing revenue as compared to a less significant decline in permanent placement royalty revenue.

Operating and administrative expenses decreased in 2013 as compared to 2012 primarily due to reduced commissions associated with the decline in contract staffing revenue.

Operating profit decreased in 2013 as compared to 2012 primarily due to the decline in gross profit partially offset by lower operating and administrative expenses.

## CDI CORP. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations  
(Amounts in thousands, except per share amounts, unless otherwise indicated)

### Fiscal Year 2012 versus 2011

#### Consolidated Results of Operations

The table that follows presents changes in revenue by segment along with selected financial information and key metrics for 2012 and 2011 :

	2012		2011		Increase (Decrease)	
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
Revenue:						
GETS	\$ 325,046	29.4%	\$ 323,546	30.5%	\$ 1,500	0.5 %
PSS	710,268	64.3	667,662	63.0	42,606	6.4
MRI	69,644	6.3	68,595	6.5	1,049	1.5
Total Revenue	\$ 1,104,958	100.0	\$ 1,059,803	100.0	\$ 45,155	4.3
Gross profit	\$ 219,409	19.9	\$ 225,301	21.3	\$ (5,892)	(2.6)
Restructuring and other related costs	\$ —	—	\$ 8,100	0.8	\$ (8,100)	NM
Operating and administrative expenses <sup>(1)</sup>	\$ 187,143	16.9	\$ 196,826	18.6	\$ (9,683)	(4.9)
Operating profit	\$ 32,266	2.9	\$ 20,375	1.9	\$ 11,891	58.4
Net income attributable to CDI	\$ 19,116	1.7	\$ 14,833	1.4	\$ 4,283	28.9
Cash flow used in operations	\$ 37,137		\$ 28,002		\$ 9,135	32.6
Effective income tax rate	39.3%		25.5%			
Pre-tax return on net assets <sup>(2)</sup>	13.8%		8.7%			

<sup>(1)</sup> In 2011, the Company's PSS segment recorded a \$9.7 million benefit related to the successful legal appeal of the OFT matter.

<sup>(2)</sup> Income before income taxes for the year, divided by the average net assets at the beginning and end of the year for the prior 12 consecutive months. Net assets include total assets minus total liabilities excluding cash and cash equivalents, income tax accounts and debt.

NM—Not meaningful.

Revenue increased in 2012 as compared to 2011 in all three segments, particularly PSS. GETS and PSS grew revenue in each of the three key industry verticals with OGC increasing the most in total dollars and percentage growth. These increases were partially offset by declining revenue in the "Other" industry verticals due primarily to reduced spending by state and local governments on infrastructure engineering activities in GETS and the completion of a long-term project in PSS.

Gross profit dollars and gross profit margin decreased in 2012 as compared to 2011 due primarily to the decrease in higher margin infrastructure engineering activities in GETS as a result of reduced state and local government spending, a shift in mix to lower margin business in PSS and lower permanent placement revenue in MRI.

Operating profit in 2011 included a benefit of \$9.7 million related to the successful legal appeal of the fine imposed by the United Kingdom Office of Fair Trade (the "OFT matter"), partially offset by an \$8.1 million charge related to the restructuring plan announced in the fourth quarter of 2011. Excluding the 2011 impact of the OFT matter and restructuring charge, operating profit increased in 2012 primarily due to the ongoing cost savings from the 2011 restructuring plan and savings from additional cost reduction efforts.

The effective income tax rate for both periods was unfavorably impacted by losses in foreign jurisdictions for which no tax benefit had been recognized and reductions to deferred tax assets for stock-based compensation grants that expired with no corresponding tax benefit. The 2011 rate was favorably impacted by a reduction in the reserve for the OFT matter and federal income tax credits under the Hiring Incentives to Restore Employment (HIRE) Act.

#### Corporate

Corporate expenses consist of operating and administrative expenses that are not allocated to the reporting units under segment reporting. Corporate expenses in 2011 included \$0.6 million related to the restructuring plan announced in the fourth quarter of 2011. Corporate expenses decreased to \$24.2 million for 2012 from \$26.3 million for 2011. Excluding the 2011 impact of the 2011 restructuring plan, corporate expenses decreased primarily due to the ongoing cost savings from the restructuring plan implemented in the fourth quarter of 2011, savings from additional cost reduction efforts, and a reduction in consulting and personnel-related costs incurred during 2011 as the Company made investments to develop its new business strategy.



**CDI CORP. AND SUBSIDIARIES**

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

**Segment Results of Operations****Global Engineering and Technology Solutions (GETS)**

The following table presents changes in revenue by industry vertical, cost of services, gross profit, operating and administrative expenses and operating profit for GETS for 2012 and 2011 :

	2012		2011		Increase (Decrease)	
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
Revenue:						
Oil, Gas and Chemicals (OGC)	\$ 110,931	34.1%	\$ 99,352	30.7%	\$ 11,579	11.7 %
Aerospace and Industrial Equipment (AIE)	72,349	22.3	71,815	22.2	534	0.7
Hi-Tech	32,829	10.1	29,639	9.2	3,190	10.8
Other	108,937	33.5	122,740	37.9	(13,803)	(11.2)
Total revenue	325,046	100.0	323,546	100.0	1,500	0.5
Cost of services	231,328	71.2	226,738	70.1	4,590	2.0
Gross profit	93,718	28.8	96,808	29.9	(3,090)	(3.2)
Operating and administrative expenses <sup>(1)</sup>	67,993	20.9	81,829	25.3	(13,836)	(16.9)
Operating profit	\$ 25,725	7.9	\$ 14,979	4.6	\$ 10,746	71.7

<sup>(1)</sup> The year ended December 31, 2011 included a \$4.5 million restructuring charge.

Revenue increased in 2012 as compared to 2011 primarily due to the growth in OGC and Hi-Tech industry verticals substantially offset by a decrease in "Other" industry verticals. The increase in OGC revenue was driven by increased demand from existing clients in the chemical industry. AIE revenue was relatively flat as revenue growth from the commercial aviation industry was significantly offset by reduced government agency and defense funding. Hi-Tech revenue increased in 2012 as compared to 2011 due primarily to increased demand from existing clients. Revenue in "Other" industry verticals decreased primarily due to reduced spending by state and local governments on infrastructure engineering activities partially offset by increased naval defense spending.

Gross profit dollars and gross profit margin decreased in 2012 as compared to 2011 primarily due to the decline in higher margin infrastructure engineering activities.

Operating and administrative expenses in 2011 included a \$4.5 million restructuring charge. Excluding the 2011 impact of the restructuring charge, operating and administrative expenses decreased in 2012 primarily due to the ongoing cost savings from the restructuring plan announced in the fourth quarter of 2011 and savings from additional cost reduction efforts.

Excluding the impact of the 2011 restructuring charge, GETS operating profit improved due to ongoing cost savings from the 2011 restructuring plan partially offset by the decline in higher margin infrastructure engineering activities.

**CDI CORP. AND SUBSIDIARIES**

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

**Professional Services Staffing (PSS)**

The following table presents changes in revenue by industry vertical, cost of services, gross profit, operating and administrative expenses and operating profit for PSS in 2012 and 2011 :

	2012		2011		Increase (Decrease)	
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
<b>Revenue:</b>						
Oil, Gas and Chemicals (OGC)	\$ 117,240	16.5%	\$ 81,771	12.2%	\$ 35,469	43.4 %
Aerospace and Industrial Equipment (AIE)	84,235	11.9	64,175	9.6	20,060	31.3
Hi-Tech	291,839	41.1	280,433	42.0	11,406	4.1
Other	216,954	30.5	241,283	36.1	(24,329)	(10.1)
Total revenue	710,268	100.0	667,662	100.0	42,606	6.4
Cost of services	616,083	86.7	572,093	85.7	43,990	7.7
Gross profit	94,185	13.3	95,569	14.3	(1,384)	(1.4)
Operating and administrative expenses <sup>(1), (2)</sup>	73,657	10.4	73,382	11.0	275	0.4
Operating profit	\$ 20,528	2.9	\$ 22,187	3.3	\$ (1,659)	(7.5)

<sup>(1)</sup> The year ended December 31, 2011 included a \$9.7 million benefit related to the successful legal appeal of the OFT matter.

<sup>(2)</sup> The year ended December 31, 2011 included a \$2.6 million restructuring charge.

Revenue increased in 2012 as compared to 2011 driven by growth in the OGC, AIE and Hi-Tech industry verticals, partially offset by the decrease in the "Other" industry verticals. OGC revenue growth was primarily due to increased demand for pipeline-related inspection activities. AIE revenue growth was primarily due to the impact of new clients. Hi-Tech revenue growth was primarily due to increased demand from existing clients and to a lesser extent the impact of new clients. Revenue in "Other" industry verticals decreased due primarily to the impact of the completion of a long-term project for a client in the financial services industry.

Gross profit dollars and margin decreased in 2012 as compared to 2011 primarily due to a shift in mix to lower margin business and to a lesser extent reduced permanent placement fees. The shift in mix to lower margin business primarily relates to the growth in lower margin pipeline-related business and the impact of the completion of the higher margin project in the financial services industry.

Operating and administrative expenses for 2011 included a benefit of \$9.7 million related to the successful legal appeal of the OFT matter and a \$2.6 million restructuring charge. Excluding the impact of the OFT matter and restructuring charge, operating and administrative expenses decreased primarily due to the ongoing cost savings from the restructuring plan implemented in the fourth quarter of 2011 and savings from additional cost reduction efforts.

Excluding the impact of the 2011 benefit related to the OFT matter and restructuring charge, PSS operating profit improved primarily due to the ongoing cost savings from the restructuring plan implemented in the fourth quarter of 2011 and savings from additional cost reduction efforts, partially offset by the decline in higher margin business.

## CDI CORP. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

### Management Recruiters International (MRI)

The following table presents changes in revenue by service type, cost of services, gross profit, operating and administrative expenses and operating profit for MRI in 2012 and 2011 :

	2012		2011		Increase (Decrease)	
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
<b>Revenue:</b>						
Contract Staffing	\$ 53,646	77.0%	\$ 51,612	75.2%	\$ 2,034	3.9 %
Royalties and Franchise Fees	15,998	23.0	16,983	24.8	(985)	(5.8)
Total revenue	69,644	100.0	68,595	100.0	1,049	1.5
<b>Cost of services</b>	<b>38,138</b>	<b>54.8</b>	<b>35,671</b>	<b>52.0</b>	<b>2,467</b>	<b>6.9</b>
Gross profit	31,506	45.2	32,924	48.0	(1,418)	(4.3)
Operating and administrative expenses	21,305	30.6	23,456	34.2	(2,151)	(9.2)
Operating profit	\$ 10,201	14.6	\$ 9,468	13.8	\$ 733	7.7

Revenue increased in 2012 as compared to 2011 due primarily to growth in contract staffing revenue partially offset by a reduction in permanent placement royalty revenue.

Gross profit dollars and margin decreased in 2012 as compared to 2011 due primarily to lower permanent placement royalty revenue.

Operating and administrative expenses decreased in 2012 as compared to 2011 primarily due to the ongoing cost savings from the restructuring plan implemented in the fourth quarter of 2011.

Operating profit increased in 2012 as compared to 2011 primarily due to the ongoing cost savings from the restructuring plan implemented in the fourth quarter of 2011, partially offset by lower permanent placement royalty revenue.

## CDI CORP. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

### Liquidity and Capital Resources

The Company's principal sources of liquidity are cash flows from operations and borrowings under credit facilities. The Company's principal uses of cash are operating expenses, capital expenditures, working capital requirements, dividends and debt service. Management expects that the Company's current cash balances, cash generated from operations and available borrowing capacity will be sufficient to support the Company's planned operating and capital requirements for the foreseeable future and at least the next twelve months.

On November 30, 2012, CDI Corp., its direct wholly-owned subsidiary, CDI Corporation, and its indirect subsidiary, CDI AndersElite Limited (each a "Borrower"), entered into a Credit Agreement (the "Credit Agreement") with Bank of America, N.A. (the "Bank"). The Credit Agreement established a \$75.0 million revolving line of credit facility (including a \$5.0 million UK overdraft facility), with a five-year term ending on November 29, 2017. Borrowings under this line of credit may be used by the Borrowers for general business purposes or for letters of credit. See Note 6 - Short-Term Borrowings, in the notes to the consolidated financial statements included in Item 8 of this Form 10-K Report for more information relating to the Credit Agreement.

As of December 31, 2013, the Company had cash and cash equivalents of \$45.5 million. As of December 31, 2013, there were outstanding borrowings of \$2.8 million, letters of credit outstanding of \$3.1 million, and \$69.1 million available to borrow under the Credit Agreement. The Company was in compliance with all covenants under the Credit Agreement as of December 31, 2013. As of December 31, 2013, the Company also had an unsecured \$0.4 million letter of credit outstanding under an agreement with TD Bank, N.A. that expires on July 1, 2014.

The Company's primary source of cash is cash generated from operations. The Company provides services to clients, which it typically bills on a weekly, bi-weekly or monthly basis. The Company has general payment terms with clients that can range from advance payments to more than 60 days. Expansions and contractions of the Company's business operations as well as varying efforts to collect amounts due can have a significant impact on accounts receivable and available cash. Expansions of the Company's business operations generally result in an initial decrease of cash due to increased payroll costs and an initial increase in outstanding accounts receivable associated with higher business volumes. Contractions of the Company's business operations generally result in an initial increase of cash due to the continued collections of outstanding accounts receivable and decreased payroll costs associated with lower business volumes. The Company's accounts receivable balances were \$230.6 million and \$223.6 million as of December 31, 2013 and 2012, respectively.

Payroll is the Company's largest expense, with the majority of billable employees paid weekly or bi-weekly. As a result of the timing differences between the revenue collection cycle and the payroll cycle, the Company typically needs to fund its operations.

Capital expenditures are primarily for the replacement of aging fixed assets and upgrades of systems for efficiencies and for expenditures associated with business expansion and growth.

The Company expects to generate positive cash flow over the business cycle. However, changes in the level of business activity do impact working capital needs and cash flow. In addition, the uncertain global economy could cause delays in customer payments, which could lead to slower collections that may cause a temporary decline in operating cash flow.

As of December 31, 2013, approximately 19.7% of the Company's cash and cash equivalents were held by certain non-U.S. subsidiaries, principally Canadian and UK entities, and denominated in foreign currencies, principally Canadian dollars and British pounds sterling. The repatriation of cash and cash equivalent balances from non-U.S. subsidiaries could have adverse tax consequences; however, such cash and cash equivalent balances are generally available, without legal restrictions, to fund ordinary business operations at the local level. Deferred income taxes have not been provided on the unremitted earnings of such non-U.S. subsidiaries because it is management's intention to reinvest such earnings in non-U.S. subsidiaries for the foreseeable future.

The following table summarizes the net cash flows, by category, from the Company's consolidated statements of cash flows:

	Year ended December 31,			Change	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Operating Activities	\$ 16,100	\$ 37,137	\$ 28,002	\$ (21,037)	\$ 9,135
Investing Activities	(7,387)	(6,634)	(5,860)	(753)	(774)
Financing Activities	(6,381)	(14,043)	(24,014)	7,662	9,971

## CDI CORP. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

### Operating Activities

During 2013 , net cash provided by operating activities was \$16.1 million , a decrease of \$21.0 million as compared to 2012 . Cash flow provided by operating activities decreased primarily due to the decline in net income, after adjusting for non-cash items, and increase in working capital requirements.

During 2012 , net cash provided by operating activities was \$37.1 million, an increase of \$9.1 million as compared to 2011. Cash flow provided by operating activities increased primarily due to the improvement in net income, after adjusting for non-cash items, and improvements in working capital requirements, partially offset by a \$4.7 million increase in payments during 2012 related to the restructuring plan announced in December 2011.

During 2011, net cash provided by operating activities was \$28.0 million, an increase of \$32.3 million as compared to 2010. Operating cash flow increased primarily due to an increase in net income of \$25.8 million and lower working capital requirements, partially offset by a net change in non-cash items of \$20.3 million. The lower working capital requirements resulted from the change in the Company's accounts receivable balances during 2011 as compared to 2010. The change in non-cash items primarily related to the \$9.7 million gain for the non-cash reduction of legal reserves in 2011 and the \$8.3 million goodwill impairment charge in 2010.

### Investing Activities

During 2013 , net cash used in investing activities was \$7.4 million , an increase of \$0.8 million as compared to 2012. The increase was primarily due to an increase in capital expenditures.

During 2012, net cash used in investing activities was \$6.6 million, an increase of \$0.8 million as compared to 2011. The increase was primarily due to an increase in capital expenditures.

During 2011, net cash used in investing activities was \$5.9 million, a decrease of \$38.9 million as compared to 2010. This decrease primarily related to the \$38.8 million of net cash used for acquisitions in 2010. On June 28, 2010, the Company purchased the L.R. Kimball business for \$34.1 million in cash and on December 20, 2010, the Company acquired the DSPCon business for \$4.7 million in cash. Investing activities in 2011 consisted primarily of purchases of fixed assets.

### Financing Activities

During 2013 , net cash used in financing activities was \$6.4 million , a \$7.7 million decrease in the use of cash as compared to 2012. The decrease in net cash used in financing activities was primarily due to the reduction in cash dividends paid and a change in book overdrafts. During December 2012, the Company accelerated the payment of the first quarter 2013 dividend typically paid in March in the amount of \$2.5 million or \$0.13 per share to holders of record as of the close of business on December 14, 2012.

During 2012, net cash used in financing activities was \$14.0 million, a decrease of \$10.0 million as compared to 2011. The decrease in net cash used in financing activities was primarily due to the \$13.9 million repayment in 2011 of borrowings under the former credit agreement and 2012 borrowings under the current Credit Agreement, partially offset by the elimination of book overdrafts and an increase in cash dividends paid to shareholders. During December 2012, the Company accelerated the payment of the first quarter 2013 dividend typically paid in March in the amount of \$2.5 million or \$0.13 per share to holders of record as of the close of business on December 14, 2012.

During 2011, net cash used in financing activities was \$24.0 million, an increase of \$27.8 million as compared to 2010. The increase in cash used in financing activities was primarily the result of the 2011 repayment of \$13.9 million under the Company's credit agreement that was drawn in 2010. The repayment was a result of the Company's improved cash flows from operations.

## CDI CORP. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

### Contractual Obligations and Commitments

The following table summarizes the Company's outstanding contractual obligations and commitments as of December 31, 2013 :

	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Operating lease commitments <sup>(1)</sup>	\$ 32,319	\$ 10,739	\$ 14,062	\$ 7,033	\$ 485
Letters of credit <sup>(2)</sup>	3,565	3,565	—	—	—
Purchase obligations <sup>(3)</sup>	10,666	6,835	3,728	103	—
Other <sup>(4)</sup>	5,337	4,710	487	121	19
<b>Total</b>	<b>\$ 51,887</b>	<b>\$ 25,849</b>	<b>\$ 18,277</b>	<b>\$ 7,257</b>	<b>\$ 504</b>

<sup>(1)</sup> Represents future minimum rental commitments under non-cancelable leases before sublease payments of \$0.2 million and \$0.1 million that are expected to be received in 2014 and 2015, respectively. The Company expects to fund these commitments with existing cash, cash flows from operations and its borrowing capacity under its Credit Agreement. (See Note 10 - Commitments, Contingencies and Legal Proceedings, in the notes to the consolidated financial statements included in Item 8 of this Form 10-K Report.)

<sup>(2)</sup> Represents letters of credit issued through domestic banks as required by certain insurance carriers, primarily in connection with the Company's workers' compensation plan.

<sup>(3)</sup> Purchase obligations consist primarily of normal and customary technology maintenance and on-line job posting and search services contracts. The Company expects to fund these commitments with existing cash, cash flows from operations and its borrowing capacity.

<sup>(4)</sup> Represents remaining amounts expected to be paid pursuant to the 2013 Restructuring Plan, excluding real estate exit and related payments that are partly included in the line 'Operating lease commitments'. (See Note 5 - Restructuring and Other Related Costs, in the notes to the consolidated financial statements included in Item 8 of this Form 10-K Report.)

### Off-Balance Sheet Arrangements

The Company does not have any significant off-balance sheet arrangements other than those disclosed in Note 10 -Commitments, Contingencies and Legal Proceedings, in the notes to the consolidated financial statements included in Item 8 of this Form 10-K Report. There are no off-balance sheet arrangements that are reasonably likely to have a material effect on the Company's consolidated financial condition, results of operations or cash flows.

### Critical Accounting Policies and Estimates

The consolidated financial statements contained in this Form 10-K Report were prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, and the disclosure of contingencies. Certain accounting policies, methods and estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ from current judgments. While there are a number of accounting policies, methods and estimates that affect the consolidated financial statements as described in Note 1 -Significant Accounting Policies, in the notes to the consolidated financial statements included in Item 8 of this Form 10-K Report, areas that are particularly significant are discussed below.

#### Revenue Recognition

Revenue in the consolidated statements of operations is presented net of any revenue-based taxes, such as sales, use, excise and value added taxes. The Company derives its revenue from several sources. Each of the Company's segments provide staffing services. GETS also provides project and outsourcing services, which include some cost-plus and fixed-price contracts, and permanent placement services. MRI also generates franchising revenue through royalties and, to a lesser extent, initial franchise fees.

*Staffing Services* - The Company recognizes revenue from staffing services based on the gross amount billed. The Company typically bills its clients once services are performed and associated costs have been incurred. In these circumstances, the Company assumes the risk of acceptability of its employees to its clients. The Company will also at times use unaffiliated companies (supplier associates) and their employees to fulfill a client's staffing requirements either in whole or in part. Under these arrangements, these firms serve as subcontractors. Clients typically require a single consolidated bill that reflects services performed by both the Company's employees and the employees of any applicable supplier associates.

When utilizing supplier associates, the Company records the difference between its gross billings and the amount paid to the supplier associate as revenue, which is generally referred to as an administrative fee. Administrative and clerical costs related to time accumulation, invoicing and other activities are recorded and included in operating and administrative expenses as incurred.



**CDI CORP. AND SUBSIDIARIES**

## Management's Discussion and Analysis of Financial Condition and Results of Operations

*( Amounts in thousands, except per share amounts, unless otherwise indicated )*

*Project and Outsourcing Services* - The Company recognizes revenue from project and outsourcing services as the services are performed. Revenue for these services is generally based on mark-ups of its employees' rates of pay utilizing an hourly multiplier or on a cost plus fixed fee basis. Information technology (IT) outsourcing service contracts generally include the performance of certain computer or network operations or service-desk support on behalf of clients. These IT outsourcing service contracts typically contain an invoicing schedule covering the contractual period. Accordingly, the Company recognizes revenue on a pro-rata basis using elapsed time as the measure of performance under these contracts. The Company derives less than 5% of its revenue from fixed-price contracts. Fixed-price engineering contracts typically include development of conceptual and detailed designs in support of a client's construction of tangible property. The Company recognizes revenue for fixed-price contracts under the percentage-of-completion method based generally on the proportion of total direct labor costs incurred to total estimated direct labor costs. When total estimated costs indicate a loss, the Company will recognize the full amount of that loss immediately.

*Permanent Placement* - Services include the search for and recruitment of candidates for employment with the Company's clients. Generally, the Company performs permanent placement services on a non-exclusive, contingency basis. Revenue is recognized only after successfully placing a recommended candidate.

*Franchise Royalties* - MRI's rights to franchise royalties are governed by the provisions of its franchise contracts. Under the franchise contracts, the franchisees remit to the Company a contractual percentage of fees collected from their clients. The Company records franchise royalty revenue as fees are collected by the franchisee and they become a receivable from the franchisee .

*Franchise Fees* - The Company recognizes fees related to sales of new MRI franchises and master franchise agreements when the Company has substantially fulfilled its requirements under the respective franchise agreement.

*Income Taxes*

The Company makes judgments and interpretations based on enacted tax laws, published tax guidance, as well as estimates of future earnings. These judgments and interpretations affect the provision for income taxes, deferred tax assets and liabilities and the valuation allowance. As of December 31, 2013 , the Company had net deferred tax assets of \$7.0 million . This included \$ 5.7 million (net of valuation allowance) which relates primarily to state net operating loss carry forwards and foreign tax credit carry forwards. A determination on the basis of objective factors was made that it is more likely than not that the net deferred tax assets will be realized through future years' income. In the event that actual results differ from these estimates and assessments, the valuation allowances may be adjusted. In 2013 , the Company released \$0.9 million from the valuation allowance for foreign deferred tax assets due primarily to the disposal of the AndersElite Australia Pty Limited business. In 2012, the Company added \$0.6 million to the valuation allowance for foreign deferred tax assets. In 2011, the Company added \$0.6 million to the valuation allowance for foreign deferred tax assets.

*Allowance for Doubtful Accounts*

The Company's principal asset is its accounts receivable. Substantially all of the Company's clients are provided trade credit. The Company's clients are primarily large and mid-sized organizations. The Company performs ongoing credit evaluations of its clients and maintains allowances for potential credit losses. The Company considers a number of factors in determining the allowance for doubtful accounts, including an assessment of client-specific information, the Company's historical experience, the age of the receivable and current market and economic conditions. Unanticipated changes in the financial condition of clients, the resolution of various disputes, or significant changes in the economy could impact the reserves required. As of December 31, 2013 and 2012 , the allowance for doubtful accounts was \$2.9 million and \$2.6 million , respectively.

*Goodwill and Other Intangible Assets*

The Company performs its annual assessment for impairment of goodwill and other indefinite-lived intangible assets as of July 1 of each fiscal year, or whenever events occur or circumstances indicate that it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is below its carrying value.

The Company has the option to perform a qualitative assessment for impairment of its goodwill and indefinite-lived intangible assets to determine if it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is below its carrying value. If the Company determines based on a qualitative assessment that it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is greater than its carrying value, then it would not be required to perform the two-step quantitative impairment test described below. If necessary, the Company will perform a quantitative assessment for impairment of its goodwill and indefinite-lived intangible assets using the two-step approach.

**CDI CORP. AND SUBSIDIARIES**

## Management's Discussion and Analysis of Financial Condition and Results of Operations

*( Amounts in thousands, except per share amounts, unless otherwise indicated )*

The first step of the quantitative impairment test requires that the Company determine the fair value of each reporting unit and then compare that fair value to the reporting unit's carrying amount. The Company uses the income approach to determine the fair value of its reporting units. The Company applies a valuation technique consistent with the income approach to measure the fair value of its indefinite-lived intangible assets. The income approach is based on the present value of estimated discounted cash flows and terminal value projected for each reporting unit. The income approach requires significant judgments, including the projected results of operations, the weighted-average cost of capital (WACC) used to discount the cash flows and terminal value assumptions. The projected results of operations are based on the Company's best estimates of future economic and market conditions, including growth rates, estimated earnings and cash expenditures. The WACC is determined based on the Company's capital structure, cost of capital, inherent business risk profile and long-term growth expectations, as reflected in the terminal value. The Company uses a market approach based on peer group market multiples to validate the reasonableness of the reporting unit fair values determined under the income approach.

The Company then validates the reasonableness of the total fair value of the reporting units under the income approach by reconciling the aggregate fair values of the reporting units to the Company's total market capitalization, adjusted to include an estimated control premium. The estimated control premium is derived from observable transactions involving the purchase of controlling interests in comparable companies. The market capitalization of the Company is based on the average stock price over a range of dates preceding and including the assessment date, if available.

The second step of the quantitative impairment test is performed if the first step indicates that impairment exists. The second step of the impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill and intangible assets as of the assessment date. The implied fair value of the reporting unit's goodwill and other intangible assets is then compared to the carrying amount of goodwill and other intangible assets to quantify an impairment charge as of the assessment date.

The Company performed its annual assessment for impairment of goodwill and other indefinite-lived intangible assets as of July 1, 2013 and determined there was no impairment. The Company's assessment determined that the fair values for each of the Company's reporting units, with the exception of PSS EMEA, comprised primarily of the CDI AndersElite Limited business, were substantially in excess of their related carrying values as of July 1, 2013. The PSS EMEA reporting unit had a fair value in excess of its carrying value of 15% and goodwill of \$10.5 million. The Company believes it has made reasonable estimates and assumptions to calculate the fair value of its reporting units. If actual future results are not consistent with management's estimates and assumptions, the Company may have to take an impairment charge in the future related to its goodwill or indefinite-lived intangible assets. There were no triggering events subsequent to July 1, 2013 that required additional testing for any reporting units or its indefinite-lived intangible assets.

Changes in future market conditions, the Company's business strategy, or other factors could impact the future values of the Company's reporting units, which could result in future impairment charges. The future occurrence of a potential triggering event, such as a decrease in expected earnings, adverse market conditions, a decline in current market multiples, a significant decline in the Company's stock price, a significant adverse change in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, strategic decisions made in response to economic or competitive conditions, or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed of, could require additional interim impairment testing prior to the next annual impairment test. In the event of significant adverse changes such as those described above, the Company may need to recognize a non-cash impairment of goodwill, which could have a material adverse effect on the Company's consolidated statements of operations. As of December 31, 2013, total goodwill amounted to \$62.3 million.

Other intangible assets arising from acquisitions that are determined to have a definite useful life are generally amortized on a straight-line basis over the estimated useful life of the asset. Other intangible assets determined to have an indefinite useful life are tested for impairment as part of the Company's annual impairment assessment. When significant intangible assets are acquired, an independent third-party valuation firm is engaged to assist in determining the fair value of the assets as of the acquisition date. As of December 31, 2013, other intangible assets amounted to \$15.2 million net of accumulated amortization.

**Contingencies**

The Company is subject to various legal proceedings and claims that have arisen in the ordinary course of business. The Company records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued, the Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of the loss. Changes in these factors could materially impact the Company's consolidated financial condition, results of operations or cash flows.

## CDI CORP. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations  
( Amounts in thousands, except per share amounts, unless otherwise indicated )

### Recently Adopted and Issued Accounting Pronouncements

For information regarding recently adopted and issued accounting pronouncements, see Note 1 - Significant Accounting Policies, under the section "Recent Accounting Pronouncements" in the notes to the consolidated financial statements included in Item 8 of this Form 10-K Report.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to risks associated with foreign currency fluctuations and changes in interest rates.

#### *Foreign Currency Risk*

The Company's exposure to foreign currency fluctuations relates primarily to its operations denominated in Canadian dollars and British pounds sterling. Exchange rate fluctuations impact the U.S. dollar value of reported earnings derived from these foreign operations as well as the Company's investment in the net assets related to these operations. The Company utilizes derivative financial instruments from time to time to reduce its exposure to certain foreign currency fluctuations.

#### *Interest Rate Risk*

The interest rate risk associated with the Company's borrowing activities as of December 31, 2013 is not material in relation to its consolidated financial position, results of operations or cash flows. While it may do so in the future, the Company has not used derivative financial instruments to alter the interest rate characteristics of its debt instruments. As of December 31, 2013, the Company had outstanding borrowings of \$ 2.8 million with interest payable at rates ranging from 1.42% to 1.78% per annum.

**Item 8. Financial Statements and Supplementary Data**

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Shareholders**

**CDI Corp.:**

We have audited the accompanying consolidated balance sheets of CDI Corp. and subsidiaries as of December 31, 2013 and 2012 , and the related consolidated statements of operations, comprehensive income, cash flows and equity for each of the years in the three-year period ended December 31, 2013 . These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CDI Corp. and subsidiaries as of December 31, 2013 and 2012 , and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013 , in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CDI Corp.'s internal control over financial reporting as of December 31, 2013 , based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
March 6, 2014

**CDI CORP. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
*(in thousands, except per share data)*

	December 31,	
	2013	2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 45,479	\$ 43,652
Accounts receivable, net of allowances of \$2,893 and \$2,563	230,613	223,630
Prepaid expenses and other current assets	8,033	10,515
Prepaid income taxes	2,378	698
Deferred income taxes	4,724	3,850
Total current assets	291,227	282,345
Property and equipment, net of accumulated depreciation of \$82,512 and \$75,159	20,528	22,090
Deferred income taxes	5,260	7,061
Goodwill	62,280	62,009
Other intangible assets, net	15,157	16,782
Other non-current assets	11,355	10,418
Total assets	\$ 405,807	\$ 400,705
<b>Liabilities and Equity</b>		
Current liabilities:		
Short-term borrowings	\$ 2,812	\$ 2,751
Accounts payable	38,019	41,157
Accrued compensation and related expenses	46,123	43,571
Other accrued expenses and other current liabilities	16,037	14,970
Income taxes payable	245	1,759
Total current liabilities	103,236	104,208
Deferred compensation	9,393	8,398
Deferred income tax	2,994	1,875
Other non-current liabilities	5,010	6,444
Total liabilities	120,633	120,925
Commitments and contingencies		
Equity:		
Preferred stock, \$0.10 par value - authorized 1,000 shares; none issued	—	—
Common stock, \$0.10 par value - authorized 100,000 shares; issued 21,958 and 21,822 shares	2,196	2,182
Class B common stock, \$0.10 par value - authorized 3,175 shares; none issued	—	—
Additional paid-in-capital	70,104	67,863
Retained earnings	265,207	259,912
Accumulated other comprehensive (loss) income	(712)	1,501
Common stock in treasury, at cost - 2,463 shares	(52,487)	(52,487)
Total CDI shareholders' equity	284,308	278,971
Noncontrolling interest	866	809
Total equity	285,174	279,780
Total liabilities and equity	\$ 405,807	\$ 400,705

See accompanying notes to consolidated financial statements.

**CDI CORP. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
*(in thousands, except per share data)*

	Year ended December 31,		
	2013	2012	2011
Revenue	\$ 1,087,859	\$ 1,104,958	\$ 1,059,803
Cost of services	881,218	885,549	834,502
Gross profit	206,641	219,409	225,301
Operating and administrative expenses	180,009	187,143	196,826
Restructuring and other related costs	5,716	—	8,100
Operating profit	20,916	32,266	20,375
Other income (expense), net	(268)	(251)	(245)
Income before income taxes	20,648	32,015	20,130
Income tax expense	7,700	12,582	5,130
Net income	12,948	19,433	15,000
Less: Income attributable to the noncontrolling interest	64	317	167
Net income attributable to CDI	\$ 12,884	\$ 19,116	\$ 14,833
<b>Earnings per common share:</b>			
Basic	\$ 0.66	\$ 0.99	\$ 0.77
Diluted	\$ 0.65	\$ 0.97	\$ 0.77

See accompanying notes to consolidated financial statements.

**CDI CORP. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
*(in thousands)*

	Year ended December 31,		
	2013	2012	2011
Net income	\$ 12,948	\$ 19,433	\$ 15,000
Other comprehensive income (loss):			
Foreign currency translation adjustments	(2,220)	1,843	(473)
Total comprehensive income	10,728	21,276	14,527
Less: Comprehensive income attributable to the noncontrolling interest	57	353	111
Total comprehensive income attributable to CDI	\$ 10,671	\$ 20,923	\$ 14,416

See accompanying notes to consolidated financial statements.

**CDI CORP. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
*(in thousands)*

	Year ended December 31,		
	2013	2012	2011
<b>Operating activities:</b>			
Net income	12,948	\$ 19,433	\$ 15,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	8,721	8,959	9,640
Amortization	1,625	1,306	1,368
Deferred income taxes	1,986	6,186	433
Share-based compensation	2,827	3,414	3,358
Non-cash reduction in legal reserves	—	—	(9,698)
Loss on disposal of assets, net	317	492	1,170
Changes in operating assets and liabilities:			
Accounts receivable, net	(9,301)	18	(103)
Prepaid expenses and other current assets	2,488	262	(1,560)
Accounts payable	(4,751)	4,891	3,019
Accrued expenses and other current liabilities	3,823	(8,762)	4,543
Income taxes prepaid/payable	(3,505)	(351)	1,638
Other non-current assets	388	(1,719)	261
Deferred compensation	(32)	579	(189)
Other non-current liabilities	(1,434)	2,429	(878)
Net cash provided by operating activities	<u>16,100</u>	<u>37,137</u>	<u>28,002</u>
<b>Investing activities:</b>			
Additions to property and equipment	(7,529)	(6,225)	(5,658)
Reacquired franchise rights	—	(65)	(372)
Other	142	(344)	170
Net cash used in investing activities	<u>(7,387)</u>	<u>(6,634)</u>	<u>(5,860)</u>
<b>Financing activities:</b>			
Dividends paid to shareholders	(7,589)	(12,548)	(9,956)
Payment of acquisition-related earnout	—	(370)	—
Borrowings on credit facility	77,619	206,674	429,614
Repayments on credit facility	(77,405)	(203,923)	(443,514)
Change in book overdraft	1,709	(3,363)	393
Common shares withheld for taxes	(858)	(900)	(551)
Excess tax benefit from share-based compensation awards	143	387	—
Net cash used in financing activities	<u>(6,381)</u>	<u>(14,043)</u>	<u>(24,014)</u>
Effect of exchange rate changes on cash and cash equivalents	(505)	548	(230)
Net increase (decrease) in cash and cash equivalents	1,827	17,008	(2,102)
Cash and cash equivalents at beginning of period	43,652	26,644	28,746
Cash and cash equivalents at end of period	<u>\$ 45,479</u>	<u>\$ 43,652</u>	<u>\$ 26,644</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest	\$ 133	\$ 202	\$ 333
Cash paid for income taxes, net	\$ 9,384	\$ 6,591	\$ 3,213



**CDI CORP. AND SUBSIDIARIES****Consolidated Statements of Equity***(in thousands, except per share amounts)*

	Common Stock		Treasury Stock	Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total CDI Shareholders' Equity	Non-Controlling Interest	Total Equity
	Shares	Amount							
<b>December 31, 2010</b>	21,531	\$ 2,153	\$ (52,487)	\$ 60,338	\$ 248,467	\$ 111	\$ 258,582	\$ 345	\$ 258,927
Net income	—	—	—	—	14,833	—	14,833	167	15,000
Translation adjustments	—	—	—	—	—	(417)	(417)	(56)	(473)
Share-based compensation expense	—	—	—	3,358	—	—	3,358	—	3,358
Reclassification of equity awards from liabilities, net	—	—	—	726	—	—	726	—	726
Vesting of equity awards	149	15	—	(15)	—	—	—	—	—
Common shares withheld for taxes	(38)	(4)	—	(547)	—	—	(551)	—	(551)
Cash dividends paid (\$0.52 per common share)	—	—	—	—	(9,956)	—	(9,956)	—	(9,956)
<b>December 31, 2011</b>	21,642	2,164	(52,487)	63,860	253,344	(306)	266,575	456	267,031
Net income	—	—	—	—	19,116	—	19,116	317	19,433
Translation adjustments	—	—	—	—	—	1,807	1,807	36	1,843
Share-based compensation expense	—	—	—	3,414	—	—	3,414	—	3,414
Share-based compensation tax benefit, net	—	—	—	50	—	—	50	—	50
Reclassification of equity awards from liabilities, net	—	—	—	1,457	—	—	1,457	—	1,457
Vesting of equity awards	235	24	—	(24)	—	—	—	—	—
Common shares withheld for taxes	(55)	(6)	—	(894)	—	—	(900)	—	(900)
Cash dividends paid (\$0.65 per common share)	—	—	—	—	(12,548)	—	(12,548)	—	(12,548)
<b>December 31, 2012</b>	21,822	2,182	(52,487)	67,863	259,912	1,501	278,971	809	279,780
Net income	—	—	—	—	12,884	—	12,884	64	12,948
Translation adjustments	—	—	—	—	—	(2,213)	(2,213)	(7)	(2,220)
Share-based compensation expense	—	—	—	2,827	—	—	2,827	—	2,827
Share-based compensation tax shortfall, net	—	—	—	(50)	—	—	(50)	—	(50)
Reclassification of equity awards from liabilities, net	—	—	—	336	—	—	336	—	336
Vesting of equity awards	189	19	—	(19)	—	—	—	—	—
Common shares withheld for taxes	(53)	(5)	—	(853)	—	—	(858)	—	(858)
Cash dividends paid (\$0.39 per common share)	—	—	—	—	(7,589)	—	(7,589)	—	(7,589)
<b>December 31, 2013</b>	21,958	\$ 2,196	\$ (52,487)	\$ 70,104	\$ 265,207	\$ (712)	\$ 284,308	\$ 866	\$ 285,174

See accompanying notes to consolidated financial statements.

**CDI CORP. AND SUBSIDIARIES**

## Notes to Consolidated Financial Statements

*(Amounts in thousands, except per share amounts, unless otherwise indicated)***1. Significant Accounting Policies**

**Organization** - CDI Corp. and its subsidiaries (the "Company" or "CDI") is an integrated engineering and technology services organization providing client-focused solutions in select global industries. The Company provides engineering and information technology (IT) solutions and staffing services to clients in the Oil, Gas and Chemical (OGC), Aerospace and Industrial Equipment (AIE), and Hi-Tech industry verticals as well as in "Other" industry verticals that primarily include the infrastructure, U.S. defense, transportation and financial services industries. The Company derives most of its revenue by providing these services to large and mid-sized companies located primarily in the United States (U.S.), Canada and the United Kingdom (UK).

**Basis of Presentation** - The consolidated financial statements of the Company and the accompanying notes are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

**Principles of Consolidation** - The consolidated financial statements include the accounts of CDI Corp. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

**Use of Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts disclosed in the financial statements and accompanying notes. Estimates, by their nature, are based on judgment and available information. Actual results could differ materially from those estimates.

Significant estimates inherent in the preparation of the accompanying consolidated financial statements include the assumptions used in the determination of the allowance for doubtful accounts receivable, impairment assessment of goodwill, determination of the recoverability of long-lived assets, assessment of legal contingencies and calculation of income taxes.

**Reclassifications** - For comparative purposes, certain amounts have been reclassified to conform to the current period presentation.

**Revenue Recognition** - Revenue is presented net of any revenue-based taxes, such as sales, use, excise and value added taxes. The Company derives its revenue from several sources. Each of the Company's three segments provide staffing services. The Company's Global Engineering Technology Solutions (GETS) segment also provides project and outsourcing services, which include cost-plus and fixed-price contracts, and permanent placement services. The Company's Management Recruiters International (MRI) segment also generates franchising revenue through royalties and, to a lesser extent, initial franchise fees.

**Staffing Services** - The Company recognizes revenue from staffing services based on the gross amount billed. The Company typically bills its clients once services are performed and associated costs have been incurred. In these circumstances, the Company assumes the risk of acceptability of its employees to its clients. The Company will also at times use unaffiliated companies (supplier associates) and their employees to fulfill a client's staffing requirements either in whole or in part. Under these arrangements, these firms serve as subcontractors. Clients typically require a single consolidated bill that reflects services performed by both the Company's employees and the employees of any applicable supplier associates. When utilizing supplier associates, the Company records the difference between its gross billings and the amount paid to the supplier associate as revenue, which is generally referred to as an administrative fee. Administrative and clerical costs related to time accumulation, invoicing and other activities are recorded and included in operating and administrative expenses as incurred.

**Project and Outsourcing Services** - The Company recognizes revenue from project and outsourcing services as the services are performed. Revenue for these services is generally based on mark-ups of the Company's employees' hourly rates of pay or on a cost plus fixed fee basis. Information technology (IT) outsourcing service contracts generally include the performance of certain computer or network operations or service-desk support on behalf of clients. These IT outsourcing service contracts typically contain an invoicing schedule covering the contractual period. Accordingly, the Company recognizes revenue on a pro-rata basis using elapsed time as the measure of performance under these IT outsourcing service contracts. The Company derives less than 5% of its revenue from fixed-price contracts. Fixed-price engineering contracts typically include development of conceptual and detailed designs in support of a client's construction of tangible property. The Company recognizes revenue for fixed-price contracts under the percentage-of-completion method based generally on the proportion of total direct labor costs incurred to total estimated direct labor costs. When total estimated costs indicate a loss, the Company will recognize the full amount of that loss immediately.

**Permanent Placement Services** - These services include the search for and recruitment of candidates for employment with the Company's clients. Generally, the Company performs permanent placement services on a non-exclusive, contingency basis. Revenue is recognized only after successfully placing a recommended candidate.

**CDI CORP. AND SUBSIDIARIES**

## Notes to Consolidated Financial Statements

*(Amounts in thousands, except per share amounts, unless otherwise indicated)*

**Franchise Royalties** - MRI's rights to franchise royalties are governed by the provisions of its franchise contracts. Under the franchise contracts, the franchisees remit to the Company a contractual percentage of fees collected from their clients. The Company records franchise royalty revenue as fees are collected by the franchisee and they become a receivable from the franchisee .

**Franchise Fees** - The Company recognizes fees related to sales of new MRI franchises and master franchise agreements when the Company has substantially fulfilled its requirements under the respective franchise agreement.

**Off-Balance Sheet Risk** - The Company is exposed to risks associated with fluctuations in foreign currency exchange rates because the transactions of its foreign operations are primarily denominated in British pounds sterling and Canadian dollars. Exchange rate fluctuations impact the U.S. dollar value of reported earnings derived from these foreign operations as well as the Company's investment in the net assets related to these foreign operations.

**Foreign Currency** - Foreign subsidiaries of the Company use local currency as the functional currency. Net assets are translated at year-end exchange rates while revenue and expenses are translated at average monthly exchange rates. Adjustments resulting from these translations are reflected in "Accumulated other comprehensive (loss) income" in the equity section of the consolidated balance sheets. Gains and losses arising from foreign currency transactions are reflected in "Other income (expense), net" in the consolidated statements of operations.

**Concentrations of Credit Risk** - The Company's principal asset is its accounts receivable. Substantially all of the Company's clients are provided trade credit. The Company's clients are primarily large and mid-sized organizations. The Company performs ongoing credit evaluations of its clients and maintains allowances for potential credit losses. The Company considers a number of factors in determining the allowance for doubtful accounts receivable, including an assessment of client-specific information, the Company's historical experience, the age of the receivable and current market and economic conditions.

The following table summarizes the changes in the allowance for doubtful accounts receivable for the indicated periods:

	Balance at beginning of year	Additions charged to earnings	Uncollectible receivables written off, net of recoveries	Balance at end of year
December 31, 2013	\$ 2,563	\$ 1,442	\$ (1,112)	\$ 2,893
December 31, 2012	3,698	637	(1,772)	2,563
December 31, 2011	5,339	428	(2,069)	3,698

One client accounted for approximately 20% and 22% of total accounts receivable as of December 31, 2013 and 2012 , respectively.

The Company's cash and cash equivalents are held in money market mutual funds and in accounts at major banks and financial institutions located primarily in Canada, the U.S. and the UK.

**Income Taxes** - The Company accounts for income taxes using the asset and liability method. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and tax basis of its assets and liabilities. In establishing its deferred income tax assets and liabilities, the Company makes judgments and interpretations based on the enacted tax laws and published tax guidance. The Company records deferred tax assets and liabilities and evaluates the need for valuation allowances to reduce the deferred tax assets to realizable amounts. The likelihood of a material change in the Company's expected realization of these assets is dependent on future taxable income, its ability to use tax credit carry forwards and carry backs, final tax settlements and the effectiveness of its tax planning strategies in the various tax jurisdictions in which it operates. The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely to be realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. See Note 9—Income Taxes.

**Cash and Cash Equivalents** - Cash equivalents include highly liquid investments that mature within 90 days from the date of investment. The Company funds its disbursement accounts daily as checks are presented for payment. Book overdrafts represent outstanding checks that have not been presented for payment, net of cash in accounts with the right of offset. Book overdrafts are reported in "Accounts payable" in the consolidated balance sheet and the change in book overdrafts are reported in financing activities of the consolidated statement of cash flows.

## CDI CORP. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

*(Amounts in thousands, except per share amounts, unless otherwise indicated)*

**Fair Value of Financial Instruments** - The net carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximate their fair value due to the short-term nature of these instruments as well as the variable interest rate for short-term borrowings.

For financial assets and liabilities measured at fair value on a recurring basis, fair value is the price the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value as follows: Level 1—quoted prices in active markets for identical instruments; Level 2—quoted prices in active markets for similar instruments, quoted prices for identical instruments in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the instrument; and Level 3—significant inputs to the valuation model are unobservable.

**Property and Equipment** - Property and equipment are recorded at cost. Depreciation expense for financial reporting purposes is computed using the straight-line method over the following useful lives:

Computer equipment	4 years
Equipment and furniture	4 - 10 years
Software	4 - 7 years
Leasehold improvements	Shorter of lease term or useful life

The Company capitalizes direct costs incurred in the development of internal-use software in the application development stage of software development.

**Goodwill and Other Intangible Assets** - Goodwill represents the excess of the purchase price over the estimated fair market value of identifiable net assets at the date of acquisition in a business combination. Other intangible assets are identifiable assets that lack physical substance, which are acquired as part of a business combination or other transaction. Intangible assets with definite lives are amortized on a straight-line basis over their useful lives. Goodwill and other intangible assets with indefinite lives are not amortized and are tested for impairment at least annually. The Company performs its annual assessment for impairment of goodwill and other indefinite-lived intangible assets as of July 1 of each fiscal year, or whenever events occur or circumstances indicate that it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is below its carrying value.

The Company has the option to perform a qualitative assessment for impairment of its goodwill and indefinite-lived intangible assets to determine if it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is below its carrying value. If the Company determines based on a qualitative assessment that it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is greater than its carrying value, then it would not be required to perform the two-step quantitative impairment test described below. If necessary, the Company will perform a quantitative assessment for impairment of its goodwill and indefinite-lived intangible assets using the two-step approach.

The first step of the quantitative impairment test requires that the Company determine the fair value of each reporting unit and then compare that fair value to the reporting unit's carrying amount. The Company uses the income approach to determine the fair value of its reporting units. The Company applies a valuation technique consistent with the income approach to measure the fair value of its indefinite-lived intangible assets. The income approach is based on the present value of estimated discounted cash flows and terminal value projected for each reporting unit. The income approach requires significant judgments, including the projected results of operations, the weighted-average cost of capital (WACC) used to discount the cash flows and terminal value assumptions. The projected results of operations are based on the Company's best estimates of future economic and market conditions, including growth rates, estimated earnings and cash expenditures. The WACC is determined based on the Company's capital structure, cost of capital, inherent business risk profile and long-term growth expectations, as reflected in the terminal value. The Company uses a market approach based on peer group market multiples to validate the reasonableness of the reporting unit fair values determined under the income approach.

The Company then validates the reasonableness of the total fair value of the reporting units under the income approach by reconciling the aggregate fair values of the reporting units to the Company's total market capitalization, adjusted to include an estimated control premium. The estimated control premium is derived from observable transactions involving the purchase of controlling interests in comparable companies. The market capitalization of the Company is based on the average stock price over a range of dates preceding and including the assessment date, if available.

The second step of the quantitative impairment test is performed if the first step indicates that impairment exists. The second step of the impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill and intangible assets as of the assessment date. The implied fair value of the reporting unit's goodwill and other intangible assets is then compared to the carrying amount of goodwill and other intangible assets to quantify an impairment charge as of the assessment date.

