

HARTE HANKS INC
Form 10-K
March 02, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

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 001-7120

HARTE-HANKS, INC.

(Exact name of registrant as specified in its charter)

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Delaware **74-1677284**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
9601 McAllister Freeway, Suite 610, San Antonio, Texas 78216
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code 210-829-9000

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

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (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 or a non-accelerated filer. See definitions of large accelerated filer, accelerated filer and small 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 if the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price (\$10.45) as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2010), was approximately \$442,228,000.

The number of shares outstanding of each of the registrant's classes of common stock as of January 31, 2011 was 63,678,809 shares of common stock, all of one class.

Documents incorporated by reference:

Portions of the Proxy Statement to be filed for the Company's 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

THIS ANNUAL REPORT ON FORM 10-K IS BEING DISTRIBUTED TO STOCKHOLDERS IN LIEU OF A SEPARATE ANNUAL REPORT PURSUANT TO RULE 14a-3(b) OF THE ACT AND SECTION 203.01 OF THE NEW YORK STOCK EXCHANGE LISTED COMPANY MANUAL.

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Harte-Hanks, Inc. and Subsidiaries

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December 31, 2010

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PART I

ITEM 1. BUSINESS
INTRODUCTION

Harte-Hanks, Inc. (Harte-Hanks) is a worldwide direct and targeted marketing company that provides direct marketing services and shopper advertising opportunities to a wide range of local, regional, national and international consumer and business-to-business marketers. We manage our operations through two operating segments: Direct Marketing, which operates both nationally and internationally, and Shoppers, which operates in local and regional markets in California and Florida.

Marketing remains under intense focus in many organizations. Many businesses have a chief-level executive charged with marketing who is charged with combining data, technology, channels and resources to demonstrate a return on marketing investment. This has led many businesses to use direct and targeted marketing, which offer accountability and measurability of marketing programs, allowing customer insight to be leveraged to create and accelerate value. Direct Marketing, which represented 70% of our total revenues in 2010, is a leader in the movement toward highly targeted, multichannel marketing. Our Shoppers business applies geographic targeting principles.

Harte-Hanks® is the successor to a newspaper business which began in Texas in the early 1920s by Houston Harte and Bernard Hanks. In 1972, Harte-Hanks went public and was listed on the New York Stock Exchange (NYSE). We became private in a leveraged buyout initiated by management in 1984. In 1993, we again went public and listed our common stock on the NYSE. In 1997, we sold all of our remaining traditional media operations (consisting of newspapers, television and radio companies) in order to focus all of our efforts on two business segments - Direct Marketing and Shoppers. See segment financial information in Note O *Business Segments* in the Notes to Consolidated Financial Statements.

Harte-Hanks provides public access to all reports filed with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended (the 1934 Act). These documents may be accessed free of charge on our website at <http://www.harte-hanks.com>. These documents are provided as soon as practical after they are filed with the SEC and may also be found at the SEC's website at <http://www.sec.gov>. Additionally, we have adopted and posted on our website a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. Our website also includes our corporate governance guidelines and the charters for each of our audit, compensation, and nominating and corporate governance committees. We will provide a printed copy of any of the aforementioned documents to any requesting stockholder.

DIRECT MARKETING

General

Our Direct Marketing services offer a wide variety of integrated, multichannel, data-driven solutions for top brands around the globe. We help our customers gain insight into their customers' behaviors from their data and use that insight to create innovative multichannel marketing programs to deliver a return on marketing investment. We believe our customer's success is determined not only by how good their tools are, but how well we help them use the tools to gain insight and analyze their consumers. This results in a strong and enduring relationship between our clients and their customers.

We offer a full complement of capabilities and resources to provide a broad range of marketing services and data management software, in media from direct mail to e-mail.

Agency & Creative Services. The Agency Inside Harte-Hanks® (The Agency) is a full-service, multichannel relationship marketing agency specializing in direct and digital communications. With

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strategy, creative and implementation services, we help marketers within targeted industries understand, identify, and engage prospects and customers in their channel of choice. The Agency's mission is to deploy world-class, data-driven, multichannel relationship marketing programs that address each client's acquisition, cross-selling, retention and loyalty needs.

Database Marketing Solutions. We have successfully delivered marketing database solutions for over 35 years across various industries. Our solutions deliver on three pillars built around a centralized marketing database. The foundation consists of: insight and analytics; customer data integration; and marketing communications tools. Our solutions enable organizations to build and manage customer communication strategies that drive new customer acquisition and retention and maximize the value of existing customer relationships. Through insight, we help clients identify models of their most profitable customer relationships and then apply these models to increase the value of existing customers while also winning profitable new customers. Through customer data integration, data from multiple sources comes together to provide a single customer view of client prospects and customers. Then, utilizing our Allink® suite of customer communication and sales optimization tools, we help clients apply their data and insights to the entire customer lifecycle, to help clients sustain and grow their business, gain deeper customer insights, and continuously refine their customer resource management strategies and tactics.

Data Quality Software and Service Solutions with Trillium Software®. Our proprietary software has helped global customers more effectively analyze, enrich, cleanse and report on their product, financial and customer data as part of master data management, data governance, CRM, data warehousing and integration initiatives. With industry-leading Trillium Software System®, Global Locator geocoding product, and associated data governance services, business users can optimize data-based business processes and transactions, realize efficiencies, and enhance the accuracy of their master set of data-improving program results.

Digital Marketing and Social Networking Services. Our digital solutions integrate online services within the marketing mix and include: site development and design, social media marketing, e-mail marketing through our Postfuture® e-mail marketing solutions, e-commerce and interactive relationship management and a host of other services that support our core businesses.

Direct Mail and Supply Chain Management. As a full-service direct marketing provider and one of the largest mailing partners of the United States Postal Service (USPS®), our operational mandate is to ensure creativity and quality, provide an understanding of the options available in technologies and segmentation strategies and capitalize on economies of scale with our variety of execution options. Our services include advanced mail optimization, logistics and transportation optimization, tracking, commingling, shrink wrapping and specialized mailings. With facilities strategically placed nationwide, we are among the largest solo mailers in the country other than the U.S. government.

Fulfillment and Contact Centers. We deliver teleservices and fulfillment operations in both consumer and business-to-business markets. We operate teleservice workstations around the globe providing advanced contact center solutions such as: speech, chat, integrated voice response, e-mail, social cloud monitoring and web self-service. We also maintain fulfillment centers strategically located throughout the United States allowing our customers to distribute literature and other marketing materials, custom kitting services, print on demand, product recalls and obtain freight optimization.

Lead Generation. Our CI Technology Database tracks technology installations, business demographics and over 5 million key decision makers at more than 4.5 million business locations in twenty five countries in North America, Latin America, Europe and China. Our clients use the data to gain insight into their prospect's and client's technology buying cycles. Our Aberdeen Group is a provider of fact-based research to identify and educate technology buyers across numerous industries and product categories. Leading technology providers use Aberdeen's proprietary research content for use in their demand creation programs, online marketing campaigns and Web-based sales and marketing tools.

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Many of our client relationships start with an offering from the list above on an individual solution basis to the client or a combination of our offerings from across our portfolio of businesses. Multichannel marketing is communicating through different marketing solutions or channels in an integrated form to reach a consumer so it is easy for a consumer to buy in whatever manner the consumer chooses. During our client relationship we try to move our clients from marketing through multiple channels to multichannel marketing. Many of our new client relationships have started with a multichannel strategy as opposed to a single solution and management believes many of its clients will increase their multichannel strategy focus in the future.

In 2010, 2009 and 2008, Harte-Hanks Direct Marketing had revenues of \$601.3 million, \$586.0 million, and \$732.7 million, respectively, which accounted for approximately 70%, 68%, and 68% of our total revenues, respectively.

Customers

Direct marketing services are marketed to specific industries or markets with services and software products tailored to each industry or market. We believe that we are generally able to provide services to new industries and markets by modifying our existing services and applications. We currently provide direct marketing services to the retail, high-tech/telecom, financial services and pharmaceutical/healthcare vertical markets, in addition to a range of selected markets. The largest Direct Marketing client, measured in revenue, comprised 7% of total Direct Marketing revenues in 2010 and 5% of our total revenues in 2010. The largest 25 clients, measured in revenue, comprised 43% of total Direct Marketing revenues in 2010 and 30% of our total revenues in 2010.

Sales and Marketing

Our national direct marketing sales force is organized around the five verticals we service: retail, high-tech/telecom, financial services, pharmaceutical/healthcare, and a wide range of selected markets. We also maintain product-specific sales forces and sales groups in North America, Europe, Australia, South America and Asia. Our sales forces, with industry-specific knowledge and experience, emphasize the cross-selling of a full range of direct marketing services and are supported by employees in each sector. The overall sales focus is to position Harte-Hanks as a marketing partner offering various services and solutions (including end-to-end) as required to meet our client's targeted marketing needs.

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Direct Marketing Facilities

Direct marketing services are provided at the following facilities, all of which are leased except as otherwise noted:

National Offices

Austin, Texas
Baltimore, Maryland
Billerica, Massachusetts
Boston, Massachusetts
Cincinnati, Ohio
Deerfield Beach, Florida
East Bridgewater, Massachusetts
Fort Worth, Texas
Fullerton, California
Grand Prairie, Texas
Jacksonville, Florida
Lake Mary, Florida
Langhorne, Pennsylvania
Linthicum Heights, Maryland
New York, New York
Ontario, California
San Diego, California
Shawnee, Kansas

Texarkana, Texas
Troy, Michigan
Wilkes-Barre, Pennsylvania
Yardley, Pennsylvania

International Offices

Bristol, United Kingdom
Buckinghamshire, United Kingdom
Hasselt, Belgium owned site
Les Ulis, France
Madrid, Spain
Manila, Philippines
Melbourne, Australia
São Paulo, Brazil
Stuttgart, Germany
Sydney, Australia
Theale, United Kingdom
Uxbridge, United Kingdom

For more information please refer to Item 2, Properties .

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Competition

Our Direct Marketing business faces competition in all of its offerings and within each of its vertical markets. Direct marketing is a dynamic business, subject to technological advancements, high turnover of client personnel who make buying decisions, client consolidations, changing client needs and preferences, continual development of competing products and services and an evolving competitive landscape. Our competition comes from numerous local, national and international direct marketing and advertising companies against whom we compete for individual projects, entire client relationships and marketing expenditures. Competitive factors in our industry include the quality and scope of services, technical and strategic expertise, the perceived value of the services provided, reputation and brand recognition. We also compete against print and electronic media and other forms of advertising for marketing and advertising dollars in general. Failure to continually improve our current processes, advance and upgrade our technology applications, and to develop new products and services in a timely and cost-effective manner, could result in the loss of our clients or prospective clients to current or future competitors. In addition, failure to gain market acceptance of new products and services could adversely affect our growth. Although we believe that our capabilities and breadth of services, combined with our national and worldwide production capability, industry focus and ability to offer a broad range of integrated services, enable us to compete effectively, our business results may be adversely impacted by competition. Please refer to Item 1A, Risk Factors, for additional information regarding risks related to competition.

Seasonality

Our Direct Marketing business is somewhat seasonal as revenues in the fourth quarter tend to be higher than revenues in other quarters during a given year. This increased revenue is a result of overall increased marketing activity prior to and during the holiday season, primarily related to our retail vertical.

SHOPPERS

General

Harte-Hanks Shoppers is North America's largest owner, operator and distributor of shopper publications (based on weekly circulation and revenues). Shoppers are weekly advertising publications distributed free by mail to households and businesses in a particular geographic area. Shoppers offer advertisers a targeted, cost-effective local advertising system, with virtually 100% penetration in their areas of distribution. Shoppers are particularly effective in large markets with high media fragmentation in which major metropolitan newspapers generally have low penetration. Our Shoppers segment also provides search-engine marketing, as well as online advertising and other services through our websites, *PennySaverUSA.com* and *TheFlyer.com*. These sites serve as advertising portals, bringing buyers and sellers together through our online offerings, including local classifieds, business listings, coupons, special offers and PowerSites®. PowerSites are templated web sites for our customers, optimized to help small and medium sized business owners establish a web presence and improve their lead generation through call tracking. At December 31, 2010, we are publishing approximately 6,000 PowerSites weekly.

As of December 31, 2010, Shoppers delivered approximately 11.2 million shopper packages in five major markets each week covering the greater Los Angeles market, the greater San Diego market, Northern California, South Florida and the greater Tampa market. Our California publications account for approximately 80% of Shoppers weekly circulation.

As of December 31, 2010, Harte-Hanks published approximately 950 individual shopper editions each week, distributed to zones with circulation of approximately 12,000 in each zone. This allows single-location, local advertisers to saturate a single relevant geographic zone, while enabling multiple-location advertisers to saturate multiple zones. This unique distribution system gives large and small advertisers alike a cost-effective way to reach their target markets. Our zoning capabilities and production technologies have enabled us to saturate and target areas in a number of ways, including geographic, demographic, lifestyle, behavioral and language, which we believe allows our advertisers to effectively target their customers.

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In 2010, 2009, and 2008, Harte-Hanks Shoppers had revenues of \$259.2 million, \$274.2 million, and \$350.1 million, respectively, accounting for approximately 30%, 32%, and 32% of our total revenues, respectively.

As a result of the difficult economic environments in California and Florida, we curtailed more than 1.4 million of circulation from July 2008 to February 2009. This consisted of approximately 850,000 of circulation in California and approximately 550,000 of circulation in Florida. We continue to evaluate our circulation performance and may make further circulation reductions in the future as part of our efforts to address local economic conditions in the California and Florida markets we serve.

Publications

The following table sets forth certain publication information with respect to Shoppers:

Market	Publication Name	December 31, 2010	
		Weekly Circulation	Number of Zones
Greater Los Angeles	<i>PennySaverUSA.com</i>	5,120,900	458
Northern California	<i>PennySaverUSA.com</i>	2,275,400	189
Greater San Diego	<i>PennySaverUSA.com</i>	1,641,000	136
South Florida	<i>TheFlyer.com</i>	1,150,900	93
Greater Tampa	<i>TheFlyer.com</i>	1,026,400	72
Total		11,214,600	948

Our shopper publications contain classified and display advertising and are delivered by saturation mail. The typical shopper publication contains approximately 37 pages and is 7 by 10 inches in size. Each edition, or zone, is targeted around a natural neighborhood marketing pattern. Shoppers also serve as a distribution vehicle for multiple ads from national and regional advertisers, including print and deliver single-sheet inserts designed and printed by us, and coupon books, preprinted inserts, and four-color glossy flyers printed by third party printers. During 2010, we distributed approximately 4.9 billion insert pieces. In addition, our shoppers also provide advertising and other services online through our websites *PennySaverUSA.com* and *TheFlyer.com*.

We have acquired, developed and applied innovative technology and customized equipment in the publication of our shoppers, contributing to our efficiency. A proprietary pagination system has made it possible for over a thousand weekly zoned editions to be designed, built and output direct-to-plate in a fully digital environment. Automating the production process saves on labor, newsprint, and overweight postage. This software also allows for better ad tracking, immediate checks on individual zone and ad status, and more on-time press starts with less manpower.

Customers

Shoppers serves both business and individual advertisers in a wide range of industries, including real estate, employment, automotive, retail, grocery, education, telecom, financial services, and a number of other industries. The largest client, measured in revenue, comprised 2% of Shoppers revenues in 2010 and 1% of our total revenues in 2010. The top 25 clients in terms of revenue comprised 22% of Shoppers revenues in 2010 and 7% of our total revenues in 2010.

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Sales and Marketing

We employ more than 400 commissioned sales representatives who develop both targeted and saturation advertising programs, both in print and online, for clients. The sales organization provides service to national, regional and local advertisers through its telemarketing departments and field sales representatives. Shoppers clients vary from individuals with a single item for sale to local neighborhood advertisers to large multi-location advertisers. The weekly number of ads is primarily driven by residential customers, whereas revenues are primarily driven by small and midsize businesses. We also focus our marketing efforts on larger national accounts by emphasizing our ability to deliver saturation advertising in defined zones, or even partial zones for inserts, in combination with advertising in the shopper publication.

Additional focus is placed on particular industries/categories through the use of sales specialists. These sales specialists are primarily used to target automotive, real estate and employment advertisers.

We utilize proprietary sales and marketing systems to enter client orders directly from the field, instantly checking space availability, ad costs and other pertinent information. These systems efficiently facilitate the placement of advertising into multiple-zoned editions and include built-in error-reducing safeguards that aid in minimizing costly sales adjustments. In addition to allowing advertising information to be entered for immediate publication, these systems feed a relational client database, enabling sales personnel to access client history by designated variables to facilitate the identification of similar potential clients and to assist with timely follow-up on existing clients.

Shoppers Facilities

Our shoppers are produced at owned or leased facilities in the markets they serve. At December 31, 2010, we had five production facilities three in Southern California, one in Northern California, and one in Tampa, Florida and approximately 13 sales offices.

For more information please refer to Item 2, Properties .

Competition

Our Shoppers business competes for advertising, as well as for readers, with other print and electronic media. Competition comes from local and regional newspapers, magazines, radio, broadcast, satellite and cable television, other shoppers, the internet, other communications media and other advertising printers that operate in our markets. The extent and nature of such competition are, in large part, determined by the location and demographics of the markets targeted by a particular advertiser and the number of media alternatives in those markets. Failure to continually improve our current processes, advance and upgrade our technology applications, and develop new products and services in a timely and cost-effective manner, could result in the loss of our clients to current or future competitors. In addition, failure to gain market acceptance of new products and services, and in geographic areas, could adversely affect our growth. We believe that our production systems and technology, which enable us to publish separate editions in narrowly targeted zones, our local ad content, and our integrated online offering allow us to compete effectively, particularly in large markets with high media fragmentation. However, our business results may be adversely impacted by competition. Please refer to Item 1A, Risk Factors , for additional information regarding risks related to competition.

Seasonality

Our Shoppers business has been somewhat seasonal in that revenues from the last two publication dates in December and the first two to three publication dates in January each year have been affected by a slowdown in advertising by businesses and individuals after the holidays. Historically, the second and third quarters have been the highest revenue quarters for our Shoppers business. As a result of the ongoing economic difficulties in California and Florida, our Shoppers revenues did not follow this general historical pattern in 2010, 2009 or 2008.

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U.S. AND FOREIGN GOVERNMENT REGULATIONS

As a company with business activities around the world, we are subject to a variety of domestic and international legal and regulatory requirements that impact our business, including, for example, regulations governing consumer protection and unfair business practices, contracts, e-commerce, intellectual property, labor and employment, securities, tax, and other laws that are generally applicable to commercial activities.

We are also subject to, or affected by, numerous domestic and foreign laws, regulations and industry standards that regulate direct marketing activities, including those that address privacy, data security and unsolicited marketing communications. Examples of some of these laws and regulations that may be applied to, or affect, our business or the businesses of our clients include the following:

Federal and state laws governing the use of the internet and regulating telemarketing, including the U.S. Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN-SPAM), which regulates commercial email and requires that commercial emails give recipients an opt-out method. The Canadian Fighting Internet and Wireless Spam Act will apply in a comparable manner for our activities in Canada. Telemarketing activities are regulated by, among other requirements, the Federal Trade Commission's Telemarketing Sales Rule (TSR), the Federal Communications Commission's Telephone Consumer Protection Act (TCPA) and various state do-not-call laws.

The U.S. Department of Commerce's proposed Dynamic Privacy Framework, which is intended to address consumer privacy fears relating to the use of personal information.

A significant number of states in the U.S. have passed versions of security breach notification laws, which generally require timely notifications to affected persons in the event of data security breaches or other unauthorized access to certain types of protected personal data.

The Fair Credit Reporting Act (FCRA), which governs, among other things, the sharing of consumer report information, access to credit scores, and requirements for users of consumer report information.

The Financial Services Modernization Act of 1999, or Gramm-Leach-Bliley Act (GLB), which, among other things, regulates the use for marketing purposes of non-public personal financial information of consumers that is held by financial institutions. Although Harte-Hanks is not considered a financial institution, many of our clients are subject to the GLB. The GLB also includes rules relating to the physical, administrative and technological protection of non-public personal financial information.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA), which regulates the use of personal health information for marketing purposes and requires reasonable safeguards designed to prevent intentional or unintentional use or disclosure of protected health information.

The Fair and Accurate Credit Transactions Act of 2003 (FACT Act), which amended the FCRA and requires, among other things, consumer credit report notice requirements for creditors that use consumer credit report information in connection with risk-based credit pricing actions and also prohibits a business that receives consumer information from an affiliate from using that information for marketing purposes unless the consumer is first provided a notice and an opportunity to direct the business not to use the information for such marketing purposes, subject to certain exceptions.

The European Union (EU) data protection laws, including the comprehensive EU Directive on Data Protection (1995), which imposes a number of obligations with respect to use of personal data, and includes a prohibition on the transfer of personal

information from the EU to other countries that do not

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provide consumers with an adequate level of privacy or security. The EU standard for adequacy is generally stricter and more comprehensive than that of the U.S. and most other countries.

There are additional consumer protection, privacy and data security regulations domestically and in other countries in which we or our clients do business. These laws regulate the collection, use, disclosure and retention of personal data and may require consent from consumers and grant consumers other rights, such as the ability to access their personal data and to correct information in the possession of data controllers. We and many of our clients also belong to trade associations that impose guidelines that regulate direct marketing activities, such as the Direct Marketing Association's Commitment to Consumer Choice.

As a result of increasing public awareness and interest in individual privacy rights, data security and environmental and other concerns regarding unsolicited marketing communications, federal, state and foreign governmental and industry organizations continue to consider new legislative and regulatory proposals that would impose additional restrictions on direct marketing services and products. Examples include data encryption standards, data breach notification requirements, consumer choice and consent restrictions and increased penalties against offending parties, among others. We anticipate that additional proposals will continue to be introduced in the future, some of which may be adopted. In addition, our business may be affected by the impact of these restrictions on our clients and their marketing activities. These additional regulations could increase compliance requirements and restrict or prevent the collection, management, aggregation, transfer, use or dissemination of information or data that is currently legally available. Additional regulations may also restrict or prevent current practices regarding unsolicited marketing communications. For example, many states have considered implementing do-not-mail legislation that could impact our Direct Marketing and Shoppers businesses and the businesses of our clients and customers. In addition, continued public interest in individual privacy rights and data security may result in the adoption of further voluntary industry guidelines that could impact our direct marketing activities and business practices.

We cannot predict the scope of any new legislation, regulations or industry guidelines or how courts may interpret existing and new laws. Additionally, enforcement priorities by governmental authorities may change and also impact our business either directly or through requiring our customers to alter their practices. Compliance with regulations is costly and time-consuming for us and our clients, and we may encounter difficulties, delays or significant expenses in connection with our compliance. We may also be exposed to significant penalties, liabilities, reputational harm and loss of business in the event that we fail to comply with applicable regulations. There could be a material adverse impact on our business due to the enactment or enforcement of legislation or industry regulations, the issuance of judicial or governmental interpretations, enforcement priorities of governmental agencies or a change in customs arising from public concern over consumer privacy and data security issues.

INTELLECTUAL PROPERTY RIGHTS

Our intellectual property assets include, for example, trademarks and service marks that identify our company and our products and services, software and other technology that we develop, our proprietary collections of data and intellectual property licensed from third parties, such as prospect list providers. We generally seek to protect our intellectual property through a combination of license agreements and trademark, service mark, copyright, patent and trade secret laws, and domain name registrations and enforcement procedures. We also enter into confidentiality agreements with many of our employees, vendors and clients and seek to limit access to and distribution of intellectual property and other proprietary information. We pursue the protection of our trademarks and other intellectual property in the United States and internationally.

Despite our efforts to protect our intellectual property, unauthorized parties may attempt to copy or otherwise obtain and use our proprietary information and technology. Monitoring unauthorized use of our intellectual property is difficult, and unauthorized use of our intellectual property may occur. We cannot be certain that patents or trademark registrations will be issued, nor can we be certain that any issued patents or trademark

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registrations will give us adequate protection from competing products. For example, issued patents may be circumvented or challenged and declared invalid or unenforceable. In addition, others may develop competing technologies or databases on their own. Moreover, there is no assurance that our confidentiality agreements with our employees or third parties will be sufficient to protect our intellectual property and proprietary information.

We may also be subject to infringement claims against us by third parties and may incur substantial costs and devote significant management resources in responding to such claims. We are obligated under some agreements to indemnify our clients as a result of claims that we infringe on the proprietary rights of third parties. These costs and diversions could cause our business to suffer. If any party asserts an infringement claim, we may need to obtain licenses to the disputed intellectual property. We cannot assure you, however, that we will be able to obtain these licenses on commercially reasonable terms or that we will be able to obtain any licenses at all. The failure to obtain necessary licenses or other rights may have an adverse affect on our ability to provide our products and services.

EMPLOYEES

As of December 31, 2010, Harte-Hanks employed approximately 4,850 full-time employees and 300 part-time employees. Approximately 3,450 full-time and 75 part-time employees were in the Direct Marketing segment and 1,400 full-time and 225 part-time employees were in the Shoppers segment. A portion of our workforce is provided to us through staffing companies. None of the workforce is represented by labor unions. We consider our relations with our employees to be good.

ITEM 1A. RISK FACTORS

Cautionary Note Regarding Forward-Looking Statements

This report, including the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), contains forward-looking statements within the meaning of the federal securities laws. All such statements are qualified by this cautionary note, which is provided pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 (1933 Act) and Section 21E of the Securities Exchange Act of 1934 (1934 Act). Forward-looking statements may also be included in our other public filings, press releases, our website and oral and written presentations by management. Statements other than historical facts are forward-looking and may be identified by words such as may, will, expects, believes, anticipates, plans, estimates, seeks, could, intends, or words of similar meaning. Examples include, but are not limited to, regarding (1) our strategies and initiatives, (2) adjustments to our cost structure and other actions designed to respond to market conditions and improve our performance, and the anticipated effectiveness and expenses associated with these actions, (3) our financial outlook for revenues, earnings per share, operating income, expense related to equity-based compensation, capital resources and other financial items, (4) expectations for our businesses and for the industries in which we operate, including with regard to the negative performance trends in our Shoppers business and the adverse impact of the ongoing economic downturn in the United States and other economies on the marketing expenditures and activities of our Direct Marketing clients and prospects, (5) competitive factors, (6) acquisition and development plans, (7) our stock repurchase program, (8) expectations regarding legal proceedings and other contingent liabilities, and (9) other statements regarding future events, conditions or outcomes.

These forward-looking statements are based on current information, expectations and estimates and involve risks, uncertainties, assumptions and other factors that are difficult to predict and that could cause actual results to vary materially from what is expressed in or indicated by the forward-looking statements. In that event, our business, financial condition, results of operations or liquidity could be materially adversely affected, and investors in our securities could lose part or all of their investments. Some of these risks, uncertainties, assumptions and other factors can be found in our filings with the SEC, including the factors discussed below in this Item 1A, "Risk Factors", and any updates thereto in our Forms 10-Q. The forward-looking statements included in this report and those included in our other public filings, press releases, our website and oral and

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written presentations by management are made only as of the respective dates thereof, and we undertake no obligation to update publicly any forward-looking statement in this report or in other documents, our website or oral statements for any reason, even if new information becomes available or other events occur in the future.

In addition to the information set forth elsewhere in this report, including in the MD&A section, the factors described below should be considered carefully in making any investment decisions with respect to our securities. The risks described below are not the only ones we face or may face in the future. Additional risks and uncertainties that are not presently anticipated or that we may currently believe are immaterial could also impair our business operations and financial performance.

We face significant competition for individual projects, entire client relationships and advertising dollars in general.

Our Direct Marketing business faces significant competition in all of its offerings and within each of its vertical markets. Direct marketing is a dynamic business, subject to technological advancements, high turnover of client personnel who make buying decisions, client consolidations, changing client needs and preferences, continual development of competing products and services and an evolving competitive landscape. This competition comes from numerous local, national and international direct marketing and advertising companies against whom we compete for individual projects, entire client relationships and marketing expenditures by clients and prospective clients. We also compete against print and electronic media and other forms of advertising for marketing and advertising dollars in general. In addition, our ability to attract new clients and to retain existing clients may, in some cases, be limited by clients' policies on or perceptions of conflicts of interest. These policies can prevent us from performing similar services for competing products or companies. Our Shoppers business competes for advertising, as well as for readers, with other print and electronic media. Competition comes from local and regional newspapers, magazines, radio, broadcast, satellite and cable television, other shoppers, the internet, other communications media and other advertising printers that operate in our markets. The extent and nature of such competition are, in large part, determined by the location and demographics of the markets targeted by a particular advertiser and the number of media alternatives in those markets. Our failure to improve our current processes or to develop new products and services could result in the loss of our clients to current or future competitors. In addition, failure to gain market acceptance of new products and services could adversely affect our growth.

Current and future competitors may have significantly greater financial and other resources than we do, and they may sell competing products and services at lower prices or at lower profit margins, resulting in pressures on our prices and margins.

The sizes of our competitors vary across market segments. Therefore, some of our competitors may have significantly greater financial, technical, marketing or other resources than we do in one or more of our market segments, or overall. As a result, our competitors may be in a position to respond more quickly than we can to new or emerging technologies and changes in customer requirements, or may devote greater resources than we can to the development, promotion, sale and support of products and services. Moreover, new competitors or alliances among our competitors may emerge and potentially reduce our market share, revenue or margins. Some of our competitors also may choose to sell products or services competitive to ours at lower prices by accepting lower margins and profitability, or may be able to sell products or services competitive to ours at lower prices given proprietary ownership of data, technical superiority or economies of scale. Price reductions or pricing pressure by our competitors could negatively impact our margins and results of operations, and could also harm our ability to obtain new customers on favorable terms. Competitive pricing pressures tend to increase in difficult economic environments, such as the current environments in the United States and other economies, due to reduced marketing expenditures of many of our clients and prospects and the resulting impact on the competitive business environment for marketing service providers such as our company.

We must maintain technological competitiveness, continually improve our processes and develop and introduce new products and services in a timely and cost-effective manner.

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We believe that our success depends on, among other things, maintaining technological competitiveness in our Direct Marketing and Shoppers products, processing functionality and software systems and services. Technology changes rapidly and there are continuous improvements in computer hardware, network operating systems, programming tools, programming languages, operating systems, database technology and the use of the Internet. Advances in information technology may result in changing client preferences for products and product delivery formats in our industry. We must continually improve our current processes and develop and introduce new products and services in order to match our competitors' technological developments and other improvements in competing product and service offerings and the increasingly sophisticated requirements of our clients. We may be unable to successfully identify, develop and bring new and enhanced services and products to market in a timely and cost-effective manner, such services and products may not be commercially successful, and services, products and technologies developed by others may render our services and products noncompetitive or obsolete.

Our success depends on our ability to consistently and effectively deliver our products and services to our clients.

Our success depends on our ability to effectively and consistently staff and execute client engagements within the agreed upon timeframe and budget. Depending on the needs of our clients, our Direct Marketing engagements may require customization, integration and coordination of a number of complex product and service offerings and execution across many of our facilities worldwide. Moreover, in some of our engagements, we rely on subcontractors and other third parties to provide a portion of our overall services, and we cannot guarantee that these third parties will effectively deliver their services or that we will have adequate recourse against these third parties in the event they fail to effectively deliver their services. Other contingencies and events outside of our control may also impact our ability to provide our products and services. Our failure to effectively and timely staff, coordinate and execute our client engagements may adversely impact existing client relationships, the amount or timing of payments from our clients, our reputation in the marketplace and ability to secure additional business and our resulting financial performance. In addition, our contractual arrangements with our Direct Marketing clients and other customers may not provide us with sufficient protections against claims for lost profits or other claims for damages.

If we lose key management or are unable to attract and retain the talent required for our business, our operating results could suffer.

Our prospects depend in large part upon our ability to attract, train and retain experienced technical, client services, sales, consulting, research and development, marketing, administrative and management personnel. While the demand for personnel is dependent on employment levels, competitive factors and general economic conditions, qualified personnel historically have been in great demand. The loss or prolonged absence of the services of these individuals could have a material adverse effect on our business, financial position or operating results.

We have recently experienced, and may experience in the future, reduced demand for our products and services and increased bad debt expense because of general economic conditions, the financial conditions and marketing budgets of our clients and other factors that may impact the industry verticals that we serve.

Economic downturns and turmoil severely affect the marketing services industry. Throughout this recent recession, and in other previous economic downturns, our customers have responded, and may respond in the future, to weak economic conditions by reducing their marketing budgets, which are generally discretionary in nature and easier to reduce in the short-term than other expenses. In addition, revenues from our Shoppers business are largely dependent on local advertising expenditures in the markets in which they operate. Such expenditures are substantially affected by the strength of the local economies in those markets. Direct Marketing revenues are dependent on national, regional and international economies and business conditions. A lasting economic recession or anemic recovery in the United States economy and the other markets in which we operate, such as the recent recession and recovery, could have material adverse effects on our business, financial position or operating results. Similarly, there may be industry or company-specific factors that negatively impact our clients and prospective clients or their industries and result in reduced demand for our products and services, client bankruptcies or other collection

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difficulties and bankruptcy preference actions to recover certain amounts previously paid to us by our clients. We may also experience reduced demand as a result of consolidation of clients and prospective clients in the industry verticals that we serve. See Management's Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K for additional information about the adverse impact on our financial performance of the ongoing difficult economic environment in the United States and other economies.

Our Shoppers business is geographically concentrated and is subject to the California and Florida economies.

Our Shoppers business is concentrated geographically in California and Florida. An economic downturn in these states, such as the current downturn, or a large disaster, such as a flood, hurricane, earthquake or other disaster or condition that disables our facilities, immobilizes the USPS or causes a significant negative change in the economies of these regions, could have a material adverse effect on our business, financial position or operating results.

Our business plan requires us to effectively manage our costs. If we do not achieve our cost management objectives, our financial results could be adversely affected.

Our business plan and expectations for the future require that we effectively manage our cost structure, including our operating expenses and capital expenditures across our operations. To the extent that we do not effectively manage our costs, our financial results may be adversely affected in any economic climate and even more so during a prolonged recession, such as the ongoing economic downturn in the United States and other economies.

Privacy, security and other direct marketing regulatory requirements may prevent or impair our ability to offer our products and services.

We are subject to, or affected by, numerous laws, regulations and industry standards that regulate direct marketing activities, including those that address privacy, data security and unsolicited marketing communications. Please refer to the section above entitled U.S. and Foreign Government Regulations for additional information regarding some of these regulations.

As a result of increasing public awareness and interest in individual privacy rights, data security and environmental and other concerns regarding unsolicited marketing communications, federal, state and foreign governmental and industry organizations continue to consider new legislative and regulatory proposals that would impose additional restrictions on direct marketing services and products. Examples include data encryption standards, data breach notification requirements, registration requirements, consumer choice and consent restrictions and increased penalties against offending parties, among others. We anticipate that additional proposals will continue to be introduced in the future, some of which may be adopted. In addition, our business may be affected by the impact of these restrictions on our clients and their marketing activities. These additional regulations could increase compliance requirements and restrict or prevent the collection, management, aggregation, transfer, use or dissemination of information or data that is currently legally available. Additional regulations may also restrict or prevent current practices regarding unsolicited marketing communications. For example, many states have considered implementing do not contact legislation that could impact our Direct Marketing and Shoppers businesses and the businesses of our clients and customers. In addition, continued public interest in individual privacy rights and data security may result in the adoption of further voluntary industry guidelines that could impact our direct marketing activities and business practices.

We cannot predict the scope of any new legislation, regulations or industry guidelines or how courts may interpret existing and new laws. Additionally, enforcement priorities by governmental authorities may change and also impact our business. Compliance with regulations is costly and time-consuming, and we may encounter difficulties, delays or significant expenses in connection with our compliance, and we may be exposed to significant penalties, liabilities, reputational harm and loss of business in the event that we fail to comply. There could be a material adverse impact on our business due to the enactment or enforcement of legislation or industry regulations, the issuance of judicial or governmental interpretations, enforcement

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priorities of governmental agencies or a change in customs arising from public concern over consumer privacy and data security issues.

We could fail to adequately protect our intellectual property rights and may face claims for intellectual property infringement.

Our ability to compete effectively depends in part on the protection of our technology, products, services and brands through intellectual property right protections, including patents, copyrights, database rights, trade secrets, trademarks and domain name registrations and enforcement procedures. The extent to which such rights can be protected and enforced varies in different jurisdictions. There is also a risk of litigation relating to our use or future use of intellectual property rights of third parties. Third-party infringement claims and any related litigation against us could subject us to liability for damages, restrict us from using and providing our technologies, products or services or operating our business generally, or require changes to be made to our technologies, products and services. Please refer to the section above entitled Intellectual Property Rights for additional information regarding our intellectual property and associated risks.

Consumer perceptions regarding the privacy and security of their data may prevent or impair our ability to offer our products and services.

Pursuant to various federal, state, foreign and industry regulations, consumers have control as to how certain data regarding them is collected, used and shared for marketing purposes. If, due to privacy or security concerns, consumers exercise their ability to prevent such data collection, use or sharing, this may impair our ability to provide direct marketing to those consumers and limit our clients' requirements for our services. Additionally, privacy and security concerns may limit consumers' willingness to voluntarily provide data to our customers or marketing companies. Some of our services depend on voluntarily provided data and may be impaired without such data.

Our reputation and business results may be adversely impacted if we, or subcontractors upon whom we rely, do not effectively protect sensitive personal information of our clients and our clients' customers.

Current privacy and data security laws and industry standards impact the manner in which we capture, handle, analyze and disseminate customer and prospect data as part of our client engagements. In many instances, client contracts also mandate privacy and security practices. If we fail to effectively protect and control sensitive personal information (such as personal health information, social security numbers or credit card numbers) of our clients and their customers or prospects in accordance with these requirements, we may incur significant expenses, suffer reputational harm and loss of business, and, in certain cases, be subjected to regulatory or governmental sanctions or litigation. These risks may be increased due to our reliance on subcontractors and other third parties in providing a portion of our overall services in certain engagements. We cannot guarantee that these third parties will effectively protect and handle sensitive personal information or other confidential information, or that we will have adequate recourse against these third parties in that event.

We may not be able to adequately protect our information systems.

Our ability to protect our information systems against damage from a data loss, security breach, computer virus, fire, power loss, telecommunications failure or other disaster is critical to our future success. Some of these systems may be outsourced to third-party providers from time to time. Any damage to our information systems that causes interruptions in our operations or a loss of data could affect our ability to meet our clients' requirements, which could have a material adverse effect on our business, financial position or operating results. While we take precautions to protect our information systems, such measures may not be effective, and existing measures may become inadequate because of changes in future conditions.

Breaches of security, or the perception that e-commerce is not secure, could harm our business and reputation.

Business-to-business and business-to-consumer electronic commerce, including that which is Internet-based, requires the secure transmission of confidential information over public networks. Some of our products and services are accessed through the Internet. Security breaches in connection with the delivery of our products

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and services, or well-publicized security breaches that may affect us or our industry, such as database intrusion, could be detrimental to our business, operating results and financial condition. We cannot be certain that advances in criminal capabilities, new discoveries in the field of cryptography or other developments will not compromise or breach the technology protecting the information systems that access our products, services and proprietary database information.

Data suppliers could withdraw data that we rely on for our products and services.

We purchase or license much of the data we use. There could be a material adverse impact on our Direct Marketing business if owners of the data we use were to withdraw or cease to allow access to the data or materially restrict the authorized uses of their data. Data providers could withdraw their data if there is a competitive reason to do so, if there is pressure from the consumer community or if additional legislation is passed restricting the use of the data. We also rely upon data from other external sources to maintain our proprietary and non-proprietary databases, including data received from customers and various government and public record sources. If a substantial number of data providers or other key data sources were to withdraw or restrict their data, if we were to lose access to data due to government regulation, or if the collection of data becomes uneconomical, our ability to provide products and services to our clients could be materially adversely affected, which could result in decreased revenues, net income and earnings per share.

We must successfully evaluate acquisition targets and integrate acquisitions.

We frequently evaluate acquisition opportunities to expand our product and service offerings and geographic locations, including potential international acquisitions. Acquisition activities, even if not consummated, require substantial amounts of management time and can distract from normal operations. In addition, we may be unable to achieve the profitability goals, synergies and other objectives initially sought in acquisitions, and any acquired assets, data or businesses may not be successfully integrated into our operations. Acquisitions may result in the impairment of relationships with employees and customers. Moreover, although we review and analyze assets or companies we acquire, such reviews are subject to uncertainties and may not reveal all potential risks, and we may incur unanticipated liabilities and expenses as a result of our acquisition activities. The failure to identify appropriate candidates, to negotiate favorable terms, or to successfully integrate future acquisitions into existing operations could result in not achieving planned revenue growth and could negatively impact our net income and earnings per share.

We are vulnerable to increases in paper prices.

Newsprint prices have fluctuated in recent years. We maintain, on average, less than 45 days of paper inventory and do not purchase our paper pursuant to long-term paper contracts. Because we have a limited ability to protect ourselves from fluctuations in the price of paper or to pass increased costs along to our clients, these fluctuations could materially affect the results of our operations.

We are vulnerable to increases in postal rates and disruptions in postal services.

Our Shoppers and Direct Marketing services depend on the USPS to deliver products. Our shoppers are delivered by Standard Mail, and postage is the second largest expense, behind labor, in our Shoppers business. Standard postage rates have increased in recent years, most recently in May 2009, and rates remain subject to further increases. For example, in July 2010, the U.S. Postal Service proposed an exigent price increase to go into effect in January 2011 by an average of 5.6%. (The Postal Regulatory Commission denied the proposal in its entirety.) Under the Postal Accountability and Enhancement Act of 2006, the USPS can file for a rate increase in February of each year, and any increase will take effect the following April. Any such rate increase is capped at the average of the consumer price index from the previous December. At this point we believe the next postal rate increase will likely occur in April 2011 and will be less than 1%. Overall Shoppers postage costs will be affected by any future increases in postage rates. Postage rates also influence the demand for our Direct Marketing services even though the cost of mailings is typically borne by our clients and is not directly reflected in our revenues or expenses. Accordingly, future postal increases or disruptions in the operations of the USPS may have an adverse impact on us.

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Our financial results could be negatively impacted by impairments of goodwill or other intangible assets with indefinite useful lives.

As of December 31, 2010, the net book value of our goodwill and other intangibles, represented approximately \$581.4 million out of our total assets of \$926.9 million. We test goodwill and other intangible assets with indefinite useful lives for impairment as of November 30 of each year and on an interim date should factors or indicators become apparent that would require an interim test. A downward revision in the fair value of either of our reporting units or any of the other intangible assets could result in impairments and non-cash charges. Any such impairment charges could have a significant negative effect on our reported net income.

Scheduled debt maturities and liquidity

All of our \$193.0 million outstanding debt is scheduled to mature over the next fifteen months. As of December 31, 2010 we had \$86.0 million in cash and had \$58.2 million of unused borrowing capacity under our 2010 Revolving Credit Facility. Depending on our ability to generate sufficient cash flow from operations, our overall liquidity and ability to make payments on our indebtedness may be adversely impacted, and we may be required to seek one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or operations, or seeking to raise debt or equity capital. We cannot assure you that any of these actions could be effected on a timely basis or on satisfactory terms, if at all. In addition, our existing debt agreements contain restrictive covenants that may prohibit us from adopting one or more of these alternatives.

Our indebtedness may adversely impact our ability to react to changes in our business or changes in general economic conditions.

The amount of our indebtedness and the terms under which we have borrowed money under our credit facilities or other agreements could have important consequences for our business. Our debt covenants require that we maintain certain financial measures and ratios. As a result of these covenants and ratios, we may be limited in the manner in which we can conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs. A failure to comply with these restrictions or to maintain the financial measures and ratios contained in the debt agreements could lead to an event of default that could result in an acceleration of outstanding indebtedness. In addition, the amount and terms of our indebtedness could:

limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate, including limiting our ability to invest in our strategic initiatives, and, consequently, place us at a competitive disadvantage;

reduce the availability of our cash flows that would otherwise be available to fund working capital, capital expenditures, acquisitions and other general corporate purposes; and

result in higher interest expense in the event of increases in interest rates, as discussed below under Interest rate increases could affect our results of operations, cash flows and financial position.

We may incur additional indebtedness in the future and, if new debt is added to our current debt levels, the above risks could be increased.

Interest rate increases could affect our results of operations, cash flows and financial position.

Interest rate movements in Europe and the United States can affect the amount of interest we pay related to our debt and the amount we earn on cash equivalents. Our primary interest rate exposure is to interest rate fluctuations in Europe, specifically Eurodollar rates, due to their impact on interest related to our credit facilities. As of December 31, 2010, we had \$193.0 million of debt outstanding, all of which was at variable interest rates. Our results of operations, cash flows and financial position could be materially adversely affected by significant increases in interest rates. We also have exposure to interest rate fluctuations in the United States, specifically money market, commercial paper and overnight time deposit rates, as these affect our earnings on excess cash. Even with the offsetting increase in earnings on excess cash in the event of an

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interest rate increase, we cannot be assured that future interest rate increases will not have a material adverse impact on our business, financial position or operating results.

Our international operations subject us to risks associated with operations outside the U.S.

Harte-Hanks Direct Marketing conducts business outside of the United States. During 2010, approximately 15.4% of Harte-Hanks Direct Marketing's revenues and 10.7% of Harte-Hanks total revenues were derived from businesses outside the United States, primarily Europe, Asia and South America. We may expand our international operations in the future as part of our growth strategy. Accordingly, our future operating results could be negatively affected by a variety of factors, some of which are beyond our control, including:

social, economic and political instability;

changes in U.S. and foreign governmental legal requirements or policies resulting in burdensome government controls, tariffs, restrictions, embargoes or export license requirements;

inflation;

the potential for nationalization of enterprises;

less favorable labor laws that may increase employment costs and decrease work force flexibility;

potentially adverse tax treatment;

less favorable foreign intellectual property laws that would make it more difficult to protect our intellectual properties from appropriation by competitors;

more onerous or differing data privacy and security requirements or other marketing regulations;

longer payment cycles for sales in foreign countries; and

the costs and difficulties of managing international operations.

In addition, exchange rate movements may have an impact on our future costs or on future cash flows from foreign investments. We have not entered into any foreign currency forward exchange contracts or other derivative instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates. The various risks that are inherent in doing business in the United States are also generally applicable to doing business outside of the United States, and may be exaggerated by the difficulty of doing business in numerous sovereign jurisdictions due to differences in culture, laws and regulations.

We must maintain effective internal controls.

In designing and evaluating our internal controls over financial reporting, we recognize that any internal control or procedure, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives and that no system of internal controls can be designed to provide absolute assurance of effectiveness. If we fail to maintain a system of effective internal controls, it could

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have a material adverse effect on our business, financial position or operating results. Additionally, adverse publicity related to a failure in our internal controls over financial reporting could have a negative impact on our reputation and business.

Fluctuation in our revenue and operating results and other factors may impact the volatility of our stock price.

The price at which our common stock has traded in recent years has fluctuated greatly and has declined significantly over that period of time. The price may continue to be volatile due to a number of factors including the following, some of which are beyond our control:

the impact and duration of the ongoing economic downturn, overall strength of the United States and other economies and general market volatility;

variations in our operating results from period to period and variations between our actual operating results and the expectations of securities analysts, investors and the financial community;

unanticipated developments with client engagements or client demand, such as variations in the size, budget, or progress toward the completion of engagements, variability in the market demand for our services, client consolidations and the unanticipated termination of several major client engagements;

announcements of developments affecting our businesses;

competition and the operating results of our competitors; and

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other factors discussed elsewhere in this Item 1A, Risk Factors .

As a result of these and other factors, investors in our common stock may not be able to resell their shares at or above their original purchase price.

War or terrorism could affect our business.

War and/or terrorism or the threat of war and/or terrorism involving the United States could have a significant impact on our business, financial position or operating results. War or the threat of war could substantially affect the levels of advertising expenditures by clients in each of our businesses. In addition, each of our businesses could be affected by operation disruptions and a shortage of supplies and labor related to such a war or threat of war.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters are located in San Antonio, Texas, and we occupy approximately 8,000 square feet of leased premises at that location. Our business is conducted in facilities worldwide containing aggregate space of approximately 3.2 million square feet. Approximately 3.0 million square feet are held under leases, which expire at dates through 2020. The balance of the properties, used in our Southern California Shoppers operations and Hasselt, Belgium Direct Marketing operations, are owned.

ITEM 3. LEGAL PROCEEDINGS

Information regarding legal proceedings is set forth in Note K, *Commitments and Contingencies*, of the Notes to Consolidated Financial Statements and is incorporated herein by reference.

ITEM 4. RESERVED**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Common Stock**

Our common stock is listed on the NYSE (symbol: HHS). The reported high and low quarterly sales price ranges for 2010 and 2009 were as follows:

	2010		2009	
	High	Low	High	Low
First Quarter	13.30	10.25	7.98	4.50
Second Quarter	15.84	10.37	10.14	5.21
Third Quarter	11.90	9.60	14.22	8.31
Fourth Quarter	13.65	11.14	14.48	9.25

In 2010 and 2009, quarterly dividends were paid at the rate of 7.5 cents per share.

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We currently plan to pay a quarterly dividend of 8.0 cents per common share in each of the quarters in 2011, although any actual dividend declaration can be made only upon approval of our Board of Directors, based on its business judgment.

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As of January 31, 2011, there are approximately 2,300 holders of record.

Issuer Purchases of Equity Securities

The following table contains information about our purchases of equity securities during the fourth quarter of 2010:

Period	Total Number of Shares Purchased(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan(1)	Maximum Number of Shares that May Yet Be Purchased Under the Plan
October 1 31, 2010		\$		10,475,491
November 1 30, 2010		\$		10,475,491
December 1 31, 2010	2,298	\$ 12.72		10,475,491
Total	2,298	\$ 12.72		

- (1) During the fourth quarter of 2010, we did not purchase any shares of our stock through our stock repurchase program that was publicly announced in January 1997. Under this program, from which shares can be purchased in the open market or through privately negotiated transactions, our Board of Directors has authorized the repurchase of up to 74,400,000 shares of our outstanding common stock. As of December 31, 2010, we had repurchased a total of 63,924,509 shares at an average price of \$18.83 per share under this program.
- (2) Total number of shares purchased includes shares, if any, purchased as part of our publicly announced stock repurchase program, plus shares withheld to pay applicable withholding taxes and the exercise price related to stock options, and shares withheld to pay applicable withholding taxes related to the vesting of nonvested shares, pursuant to the Harte-Hanks, Inc. 2005 Omnibus Incentive Plan.

Comparison of Stockholder Returns

The material under this heading is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any filing under the 1933 Act or the 1934 Act, whether made before or after the date hereof and irrespective of any general incorporation language in such filing.

The following graph compares the cumulative total return of our common stock during the period December 31, 2005 to December 31, 2010 with the Standard & Poor's 500 Stock Index (S&P 500 Index) and with two peer groups. We made modifications to our peer group in this 2010 Annual Report on Form 10-K compared to our previous peer group in order to be consistent with the modified 2011 peer group used by our Compensation Committee in evaluating management compensation.

Our former peer group included Acxiom Corporation, Alliance Data Systems Corporation, Consolidated Graphics, Inc., Dun & Bradstreet Corporation, Equifax, Inc., Fair Isaac and Company, Inc., ICT Group, Inc., Infogroup, Inc., Interpublic Group of Companies, Inc., PC Mall, Inc., Sykes Enterprises, Inc., Teletech Holdings, Inc., Valassis Communications, Inc., ValueClick, Inc., and Viad Corp.

Our current peer group includes Acxiom Corporation, Alliance Data Systems Corporation, Cenveo, Inc., Consolidated Graphics, Inc., Convergys Corp., Dun & Bradstreet Corporation, Equifax, Inc., Gartner, Inc., GSI Commerce, Inc., Interpublic Group of Companies, Inc., Meredith Corp., Sykes Enterprises, Inc., Teletech Holdings, Inc., Valassis Communications, Inc., and ValueClick, Inc.

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The S&P Index includes 500 United States companies in the industrial, transportation, utilities and financial sectors and is weighted by market capitalization. The peer groups are also weighted by market capitalization.

The graph depicts the results of investing \$100 in our common stock, the S&P 500 Index and the peer groups at closing prices on December 31, 2005 and assumes the reinvestment of dividends.

	Base	Years Ending				
	Period	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Harte-Hanks, Inc.	100	105.93	66.99	24.88	44.48	53.98
S&P 500 Index	100	115.79	122.16	76.96	97.33	111.99
Current Peer Group	100	125.88	112.74	68.54	97.48	118.47
Former Peer Group	100	122.70	108.82	68.53	96.93	115.19

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The following table sets forth our summary historical financial information for the periods ended and as of the dates indicated. You should read the following historical financial information along with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-K. The fiscal year financial information included in the table below for the years ended December 31, 2010, 2009, and 2008 is derived from audited financial statements contained in this Form 10-K. Information for the years ended December 31, 2007 and 2006 can be found in our previously filed Annual Reports on Form 10-K.

<i>In thousands, except per share amounts</i>	2010	2009	2008	2007	2006
Statement of Operations Data					
Revenues	\$ 860,526	\$ 860,143	\$ 1,082,821	\$ 1,162,886	\$ 1,184,688
Operating expenses					
Labor, production and distribution	679,254	678,307	847,470	871,468	874,088
Advertising, selling, general and administrative	66,792	62,479	81,655	89,787	90,516
Shoppers legal settlement		6,950			
Depreciation and amortization	22,437	28,265	33,429	33,195	31,566
Intangible amortization	990	1,712	2,950	3,509	2,466
Total operating expenses	769,473	777,713	965,504	997,959	998,636
Operating income	91,053	82,430	117,317	164,927	186,052
Interest expense, net	2,624	7,968	13,823	12,453	6,102
Net income	\$ 53,604	\$ 47,715	\$ 62,741	\$ 92,640	\$ 111,792
Earnings per common share - diluted	\$ 0.84	\$ 0.75	\$ 0.98	\$ 1.26	\$ 1.39
Cash dividends per common share	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.28	\$ 0.24
Weighted-average common and common equivalent shares outstanding - diluted	64,139	63,885	64,104	73,703	80,646
Segment Data					
Revenues					
Direct Marketing	\$ 601,283	\$ 585,988	\$ 732,740	\$ 732,461	\$ 709,728
Shoppers	259,243	274,155	350,081	430,425	474,960
Total revenues	\$ 860,526	\$ 860,143	\$ 1,082,821	\$ 1,162,886	\$ 1,184,688
Operating income (loss)					
Direct Marketing	\$ 86,748	\$ 95,812	\$ 103,121	\$ 108,796	\$ 109,458
Shoppers	15,602	(1,354)	25,884	70,784	88,814
General corporate	(11,297)	(12,028)	(11,688)	(14,653)	(12,220)
Total operating income	\$ 91,053	\$ 82,430	\$ 117,317	\$ 164,927	\$ 186,052
Capital expenditures	\$ 17,449	\$ 9,011	\$ 19,947	\$ 28,217	\$ 33,708
Balance sheet data (at end of period)					
Current assets	\$ 268,463	\$ 256,599	\$ 241,203	\$ 265,680	\$ 279,975
Property, plant and equipment, net	72,659	78,399	97,433	112,354	116,591
Goodwill and other intangibles, net	581,439	569,163	570,866	564,522	568,795
Total assets	926,880	908,151	913,566	951,926	969,285
Total debt	193,000	239,688	270,625	259,125	205,000
Total stockholders' equity	\$ 437,823	\$ 401,643	\$ 356,372	\$ 408,512	\$ 493,476

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Cautionary Note About Forward-Looking Statements

This report, including this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), contains forward-looking statements within the meaning of the federal securities laws. All such statements are qualified by the cautionary note included under Item 1A above, which is provided pursuant to the safe harbor provisions of Section 27A of the 1933 Act and Section 21E of the 1934 Act. Actual results may vary materially from what is expressed in or indicated by the forward-looking statements.

Overview

The following MD&A section is intended to help the reader understand the results of operations and financial condition of Harte-Hanks, Inc. (Harte-Hanks). This section is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to the financial statements.

Harte-Hanks® is a worldwide direct and targeted marketing company that provides multichannel direct and digital marketing services and shopper advertising opportunities to a wide range of local, regional, national and international consumer and business-to-business marketers. We manage our operations through two operating segments: Direct Marketing and Shoppers.

Our Direct Marketing services offer a wide variety of integrated, multichannel, data-driven solutions for top brands around the globe. We help our customers gain insight into their customers' behaviors from their data and use that insight to create innovative multichannel marketing programs to deliver a return on marketing investment. We believe our customer's success is determined not only by how good their tools are, but how well we help them use the tools to gain insight and analyze their consumers. This results in a strong and enduring relationship between our clients and their customers. We offer a full complement of capabilities and resources to provide a broad range of marketing services and data management software, in media from direct mail to e-mail, including:

agency and creative services;

database marketing solutions;

data quality software and services with Trillium Software;

digital marketing and social networking services;

direct mail and supply chain management;

fulfillment and contact centers; and

lead generation.

In 2010, our Direct Marketing segment had revenues of \$601.3 million, which represented 70% of our total revenues.

Harte-Hanks Shoppers is North America's largest owner, operator and distributor of shopper publications, based on weekly circulation and revenues. Shoppers are weekly advertising publications delivered free by mail to households and businesses in a particular geographic area. Through print and digital offerings, Shoppers is a trusted local source for saving customers money and helping businesses grow. Shoppers offer advertisers a geographically targeted, cost-effective local advertising system, with virtually 100% penetration in their area of distribution. Shoppers are particularly effective in large markets with high media fragmentation in which major metropolitan newspapers generally have low penetration. Our Shoppers business also provides advertising and other services online through our websites, *PennySaverUSA.com* and

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TheFlyer.com. These sites are online advertising portals, bringing buyers and sellers together through our online offerings, such as local classifieds, business listings, coupons, special offers and PowerSites®. PowerSites are templated websites for our customers, optimized to help small and medium sized business owners establish a web presence and improve

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their lead generation. At December 31, 2010, we are publishing approximately 6,000 PowerSites weekly. In 2010, our Shoppers segment had revenues of \$259.2 million, which represented 30% of our total revenues.

At December 31, 2010, our Shoppers publications were zoned into approximately 950 separate editions with total circulation of approximately 11.2 million shopper packages in California and Florida each week. As a result of the difficult economic environment in California and Florida, we curtailed more than 1.4 million of unprofitable or marginal circulation in 2008 and 2009. This consisted of circulations of approximately 850,000 in California and 550,000 in Florida. We continue to evaluate all of our circulation performance and may make further circulation reductions in the future as part of our efforts to address the difficult economic conditions in California and Florida.

We derive revenues from the sale of direct marketing services and shopper advertising services. As a worldwide business, Direct Marketing is affected by general national and international economic trends. Direct Marketing revenues are also affected by economic fundamentals of each industry that we serve, various market factors, including the demand for services by our clients, and the financial condition of and budgets available to specific clients, among other factors. Our Shoppers operate in regional markets in California and Florida and are greatly affected by the strength of the state and local economies.

Our businesses continued to face challenging economic environments in 2010, which negatively impacted our financial performance. Marketing budgets are often more discretionary in nature, and are easier to reduce in the short-term than other expenses in response to weak economic conditions. Difficult economic conditions and consolidation and bankruptcies of customers and prospective customers in the industry verticals that we serve have resulted in pricing pressures and in reduced demand for our products and services.

Direct Marketing revenues are dependent on, among other things, national, regional and international economic and business conditions. While we did see revenue growth in our Direct Marketing business in 2010, economic conditions remain difficult both in the United States and internationally. The economic environment in the United States and other economies continue to adversely impact the marketing expenditures and activities of our customers, resulting in pricing pressures, significant reductions and delays in spending by clients and prospective clients.

Revenues from our Shoppers business are largely dependent on local advertising expenditures in the areas of California and Florida in which we operate. Such expenditures are substantially affected by the strength of the local economies in those markets. During 2010, the negative trends and economic conditions that we have experienced since the second half of 2007 in California and Florida continued. These conditions were initially created by weakness in the real estate and associated financing markets and have spread across virtually all categories.

Although economic uncertainty remains, and we believe that 2011 will continue to be challenging, we have seen some signs of improvement in both businesses over the last few quarters. Due to the structural changes we have made across our entire company, we believe that we are well positioned for an improved economic environment.

Our principal operating expense items are labor, postage and transportation.

Table of Contents**Results of Operations**

Operating results were as follows:

In thousands except

<i>per share amounts</i>	2010	% Change	2009	% Change	2008
Revenues	\$ 860,526	0.0	\$ 860,143	-20.6	\$ 1,082,821
Operating expenses	769,473	-1.1	777,713	-19.5	965,504
Operating income	\$ 91,053	10.5	\$ 82,430	-29.7	\$ 117,317
Net income	\$ 53,604	12.3	\$ 47,715	-23.9	\$ 62,741
Diluted earnings per share	\$ 0.84	12.0	\$ 0.75	-23.5	\$ 0.98

Year ended December 31, 2010 vs. Year ended December 31, 2009*Revenues*

Consolidated revenues increased \$0.4 million, to \$860.5 million, and operating income increased 10.5%, to \$91.1 million, in 2010 compared to 2009. Our overall results reflect increased revenues of \$15.3 million, or 2.6%, from our Direct Marketing segment and decreased revenues of \$14.9 million, or 5.4%, from our Shoppers segment. Direct Marketing experienced increased revenues from our pharma/healthcare, select, retail and financial verticals, which were partially offset by decreased revenues from our high-tech vertical. Direct Marketing revenues were helped by a large, one-time, voluntary recall project for a long time Direct Marketing customer during the second half of 2010. While the results from our verticals are mixed, the overall results reflect the effects of the difficult economic environment, including reduced volumes and price reductions, on our Direct Marketing business during 2010. The August 2010 acquisition of Information Arts also contributed to the 2010 revenue growth. Shoppers revenue performance reflects the continued impact that the difficult economic environments in California and Florida are having on our Shoppers business. The decrease in Shoppers revenues was the result of decreased sales in established markets, including declines in most revenue categories, and curtailment of circulation of approximately 700,000 addresses in February of 2009. On a comparable circulation basis, Shoppers revenues decreased approximately 5.3%.

Operating Expenses

Overall operating expenses decreased 1.1%, to \$769.5 million, in 2010 compared to 2009. The overall decrease in operating expenses was driven by decreased operating expenses in Shoppers of \$31.9 million, or 11.6%, and decreased general corporate expense of \$0.7 million, or 6.1%, partially offset by an increase of \$24.4 million, or 5.0%, in Direct Marketing. The decrease at Shoppers was primarily due to a \$7.0 million legal settlement in 2009, lower payroll expense as a result of headcount reductions, decreased paper costs resulting from lower average paper rates and declines in volumes, decreased facility lease costs as a result of a lease write-off in 2009, and decreased postage costs as a result of a non-recurring postal incentive rebate received in 2010 and a decline in distribution volumes. The Direct Marketing increase was primarily due to the one-time project described previously, increased outsourced costs resulting from increased outsourced volumes, higher mail supply chain costs along with higher transportation volumes, and increased incentive compensation. A \$2.6 million decrease in pension expense, resulting from the increase in the market value of our pension plan assets during the calendar year 2009, also contributed to the overall decrease in operating expenses.

Net Income/Earnings Per Share

Net income increased 12.3%, to \$53.6 million, and diluted earnings per share increased 12.0%, to \$0.84 per share, in 2010 compared to 2009. The increases in net income and diluted earnings per share were a result of increased operating income from Shoppers, decreased general corporate expense and lower interest expense, partially offset by decreased operating income from Direct Marketing and a higher effective tax rate in 2010 compared to 2009.

Table of ContentsYear ended December 31, 2009 vs. Year ended December 31, 2008*Revenues*

Consolidated revenues decreased 20.6%, to \$860.1 million, and operating income decreased 29.7%, to \$82.4 million, in 2009 compared to 2008. Our overall results reflect decreased revenues of \$146.8 million, or 20.0%, from our Direct Marketing segment and decreased revenues of \$75.9 million, or 21.7%, from our Shoppers segment. Direct Marketing experienced year-over-year double-digit revenue declines from all vertical markets. These results reflect the effects of the economic recession on our Direct Marketing business. Shoppers revenue performance reflects the continued impact that the difficult economic environments in California and Florida are having on our Shoppers business. The decrease in Shoppers revenues was the result of decreased sales in established markets, including declines in virtually every revenue category, curtailment of circulation of approximately 1.5 million addresses from July 2008 to February 2009, and an additional publication week in 2008. Excluding revenues from discontinued circulation and the additional publication week, Shoppers revenues decreased approximately 17.1%.

Operating Expenses

Overall operating expenses decreased 19.5%, to \$777.7 million, in 2009 compared to 2008. The overall decrease in operating expenses was driven by decreased operating expenses in Direct Marketing of \$139.4 million, or 22.1%, decreased operating expenses in Shoppers of \$48.7 million, or 15.0%, and increased general corporate expense of \$0.3 million, or 2.9%. The Direct Marketing decrease was primarily a result of headcount reductions, lower outsourced costs, lower mail supply chain costs, lower commissions and less travel expense. The decrease at Shoppers was primarily due to headcount reductions, decreases in postage and paper costs, lower bad debt expense, and lower promotion-related expense. This decrease at Shoppers was partially offset by a 2009 fourth quarter \$7.0 million legal settlement. The overall decrease in operating expenses was partially offset by a \$7.1 million increase in pension expense due to the 2008 decline in the market value of our pension plan assets.

Net Income/Earnings Per Share

Net income decreased 23.9%, to \$47.7 million, and diluted earnings per share decreased 23.5%, to \$0.75 per share, in 2009 compared to 2008. The decreases in net income and diluted earnings per share were a result of decreased operating income from both Shoppers and Direct Marketing and increased general corporate expense, partially offset by lower interest expense and a lower effective tax rate in 2009 compared to 2008.

Direct Marketing

Direct Marketing operating results were as follows:

<i>In thousands</i>	2010	% Change	2009	% Change	2008
Revenues	\$ 601,283	2.6	\$ 585,988	-20.0	\$ 732,740
Operating expenses	514,535	5.0	490,176	-22.1	629,619
Operating income	\$ 86,748	-9.5	\$ 95,812	-7.1	\$ 103,121

Year ended December 31, 2010 vs. Year ended December 31, 2009*Revenues*

Direct Marketing revenues increased \$15.3 million, or 2.6%, in 2010 compared to 2009. These results reflect an increase of over 15% from our pharma/healthcare vertical compared to 2009. The growth in the pharma/healthcare vertical was helped by a large, one-time, voluntary recall project for a long time Direct Marketing customer during the second half of 2010. Our select and retail verticals experienced revenue growth in the mid single digits (as a percentage) and our financial vertical grew in the low single digits. Our high-tech vertical declined in the mid single digits. While the results from our verticals are mixed, the overall results reflect the effects of the difficult economic environment, including reduced volumes and price reductions, on our Direct Marketing business during 2010. Revenues from our vertical markets are impacted by, among other things, the economic fundamentals of each industry, various market factors, including the demand for services

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by our clients, and the financial condition of and budgets available to specific clients. The August 2010 acquisition of Information Arts also contributed to the 2010 revenue growth.

Future revenue performance will depend on, among other factors, the overall strength of the national and international economies and how successful we are at maintaining and growing business with existing clients, acquiring new clients and meeting client demands. We believe that in the long-term an increasing portion of overall marketing and advertising expenditures will be moved from other advertising media to the targeted media space, the results of which can be more effectively tracked, enabling measurement of the return on marketing investment, and that our business will benefit as a result.

The postage cost of program mailings is borne by our clients and is not directly reflected in our revenues or expenses.

Operating Expenses

Operating expenses increased \$24.4 million, or 5.0%, in 2010 compared to 2009. The one-time project described previously contributed to this increase. Labor costs increased \$2.9 million, or 1.1%, due to increased incentive compensation and commissions as a result of revenue performance. This increase was partially offset by lower payrolls due to lower average headcount, decreased severance, decreased healthcare expense and decreased pension expense. Production and distribution costs increased \$20.8 million, or 12.7%, due to increased outsourced costs resulting from increased outsourced volumes, and higher mail supply chain costs along with higher transportation volumes. This increase was partially offset by decreased lease expense due to facility consolidations. General and administrative expense increased \$4.8 million, or 11.9%, due primarily to an increase in travel, employee recruiting, facilities costs and bad debt expense. Depreciation and software amortization expense decreased \$3.7 million, or 18.0%, due to decreased capital expenditures over the last few years. Intangible asset amortization decreased \$0.4 million, or 59.6%, as certain intangible assets became fully amortized.

Direct Marketing's largest cost components are labor, outsourced costs and mail supply chain costs. Each of these costs is somewhat variable and tends to fluctuate with revenues and the demand for our direct marketing services. Mail supply chain costs have increased significantly in 2010, contributing to the overall increase in operating expenses. Future changes in mail supply chain costs will continue to impact Direct Marketing's total production costs and total operating expenses, and may have an impact on future demand for our supply chain management.

Year ended December 31, 2009 vs. Year ended December 31, 2008

Revenues

Direct Marketing revenues decreased \$146.8 million, or 20.0%, in 2009 compared to 2008. Revenues from all of our vertical markets experienced double-digit revenue declines in 2009 compared to 2008. The financial services vertical continued to be the most challenging, with revenues declining approximately 30% for the year. Revenues from our high tech/telecom and retail verticals declined approximately 20%, while our pharma/healthcare and select verticals had revenue declines in the high teens. These results reflect the effects of the economic recession, including reduced volumes and price reductions, on our Direct Marketing business.

Operating Expenses

Operating expenses decreased \$139.4 million, or 22.1%, in 2009 compared to 2008. Labor costs decreased \$62.2 million, or 19.1%, due to headcount reductions, lower commissions as a result of revenue performance, lower healthcare costs due to reduced headcount and claims, decreased stock-based compensation and lower severance costs. This decrease was partially offset by an increase in pension expense. Production and distribution costs decreased \$60.2 million, or 26.8%, due to lower outsourced costs as a result of lower outsourced volumes, lower mail supply chain costs resulting from reduced transportation volumes and decreased transportation costs. General and administrative expense decreased \$11.0 million, or 21.4%, due primarily to less travel, less expense related to business and professional services, and a decrease in bad debt

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expense. Depreciation and software amortization expense decreased \$4.9 million, or 19.2%, due to decreased capital expenditures in the last several quarters and assets becoming fully depreciated. Intangible asset amortization decreased \$1.2 million, or 62.4%, due to certain intangible assets becoming fully amortized.

Shoppers

Shoppers operating results were as follows:

<i>In thousands</i>	2010	% Change	2009	% Change	2008
Revenues	\$ 259,243	-5.4	\$ 274,155	-21.7	\$ 350,081
Operating expenses	243,641	-11.6	275,509	-15.0	324,197
Operating income	\$ 15,602	1,252.3	\$ (1,354)	-105.2	\$ 25,884

Year ended December 31, 2010 vs. Year ended December 31, 2009*Revenues*

Shoppers revenues decreased \$14.9 million, or 5.4%, in 2010 compared to 2009. These results reflect the continued impact that the difficult economic environments in California and Florida are having on our Shoppers business. The decrease in revenues was the result of decreased sales in established markets, including declines in most revenue categories, and curtailment of circulation of approximately 700,000 addresses in February of 2009. The net impact of this circulation curtailment was a reduction in Shoppers revenues of \$0.5 million in 2010 compared to 2009. On a comparable circulation basis, Shoppers revenues decreased approximately 5.3%. Our real estate, grocery, and automotive sectors all declined in 2010, while our educational services, health services, and communications sectors all showed revenue improvement. Our digital revenues continue to grow, primarily as a result of our PowerSite sales. At December 31, 2010, our Shoppers circulation reached approximately 11.2 million shopper packages in California and Florida each week. We continue to evaluate all of our circulation performance and may make further circulation reductions in the future as part of our efforts to address the difficult economic conditions in California and Florida.

Future revenue performance will depend on, among other factors, the overall strength of the California and Florida economies, as well as how successful we are at maintaining and growing business with existing clients, and acquiring new clients.

Operating Expenses

Operating expenses decreased \$31.9 million, or 11.6%, in 2010 compared to 2009. A \$7.0 million legal settlement in the fourth quarter of 2009 contributed to this decrease. Excluding this legal settlement, operating expenses decreased \$24.9 million, or 9.3%. Total labor costs decreased \$11.9 million, or 12.8%, as a result of reductions in our Shoppers workforce due to plant consolidations, administrative staff reductions, lower variable payroll costs from lower ad sales and volumes, lower severance costs, lower healthcare costs and lower pension expense. Total production costs decreased \$9.8 million, or 6.7%, due primarily to decreased paper costs resulting from lower average paper rates and declines in volumes, decreased facility lease costs as a result of a lease write-off in the first quarter of 2009 related to consolidations and circulation curtailments, decreased postage costs as a result of a non-recurring postal incentive rebate received in the third quarter of 2010 and a decline in distribution volumes. Total general and administrative costs decreased \$7.7 million, or 29.4%, due to the \$7.0 million legal settlement in the fourth quarter of 2009, and lower bad debt expense. Depreciation and software amortization expense decreased \$2.1 million, or 27.3%, due to an accelerated depreciation charge in the first quarter of 2009 related to a facility consolidation in Florida, and decreased capital expenditures in the last few years. Intangible asset amortization decreased \$0.3 million, or 29.7%, as certain intangible assets became fully amortized.

Shoppers largest cost components are labor, postage and paper. Shoppers labor costs are partially variable and tend to fluctuate with the number of zones, circulation, volumes and revenues. Shoppers realized a positive effect on labor costs in 2010 due to headcount reductions as a result of plant consolidations, overall administrative staff reductions, and the circulation reductions in 2008 and 2009. Standard postage rates have

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increased in recent years, most recently in May 2009. Shoppers' postage rates increased by approximately 1.4% as a result of the May 2009 rate increase. Under the Postal Accountability and Enhancement Act of 2006, the USPS can file for a rate increase in February of each year, and any increase will take effect the following April. Any such rate increase is capped at the average of the consumer price index from the previous December. At this point we believe the next postal rate increase will likely occur in April 2011 and will be less than 1%. Overall Shoppers' postage costs will be affected by any future increases in postage rates. The U. S. Postal Service has also proposed various changes in its services to address its financial performance, such as delivery frequency and facility access. We do not believe the proposed changes will have a material impact on our Shoppers business. Shoppers' newsprint prices decreased in the first half of 2010, contributing to the overall decrease in Shoppers' 2010 paper costs. Newsprint prices increased over the second half of 2010 and are expected to continue to increase in the first half of 2011. Any future changes in newsprint prices will affect Shoppers' production costs.

Year ended December 31, 2009 vs. Year ended December 31, 2008*Revenues*

Shoppers revenues decreased \$75.9 million, or 21.7%, in 2009 compared to 2008. These results reflect the continued impact that the difficult economic environments in California and Florida are having on our Shoppers business. The decrease in revenues was the result of decreased sales in established markets, including declines in virtually every revenue category, and curtailment of circulation of approximately 250,000 in July 2008, 500,000 in December 2008 and 700,000 in February 2009. The net impact of these circulation curtailments was a reduction in Shoppers revenues of \$15.5 million. The once every five to six year occurrence of one extra publication week in the fourth quarter of 2008 also contributed to the Shoppers revenue decrease in 2009. The 53rd week has historically been marginally profitable. Excluding revenues from discontinued circulation and the 53rd week in 2008, Shoppers revenues decreased approximately 17.1%. At December 31, 2009, our Shoppers circulation reached approximately 11.5 million addresses each week.

Operating Expenses

Operating expenses decreased \$48.7 million, or 15.0%, in 2009 compared to 2008. This decrease was partially offset by a \$7.0 million legal settlement in the fourth quarter of 2009. Excluding this settlement, total operating expenses would have decreased by \$55.6 million, or 17.2%. Total labor costs decreased \$22.4 million, or 19.4%, as a result of reductions in our Shoppers workforce due to consolidations and circulation curtailments. Total production costs decreased \$26.3 million, or 15.1%, due primarily to decreased postage costs resulting from circulation curtailments and decreased distribution volumes, decreased outsourced printing costs due to lower distribution volumes and decreased paper costs due to circulation reductions and a decline in ad placements. This decrease was partially offset by \$1.6 million in lease write-offs in the first quarter of 2009 related to the consolidations and circulation curtailments. Total general and administrative costs increased \$0.3 million, or 1.3%, due primarily to the \$7.0 million legal settlement. Excluding this settlement, general and administrative costs decreased \$6.6 million, or 25.5%, due primarily to lower bad debt expense and lower promotion-related expense due to revenue levels. Depreciation and software amortization expense decreased \$0.3 million, or 3.8%, due to decreased capital expenditures in the last several quarters and assets becoming fully depreciated. Intangible asset amortization decreased \$0.1 million, or 4.9%.

Incremental expenses associated with the 53rd week of publication in 2008 also slightly contributed to the overall decline in operating expenses in 2009.

General Corporate Expense**Year ended December 31, 2010 vs. Year ended December 31, 2009**

General corporate expense decreased \$0.7 million, or 6.1%, during 2010 compared to 2009. This decrease was primarily due to decreased pension expense resulting from the increase in the market value of our pension plan assets during the calendar year 2009.

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Year ended December 31, 2009 vs. Year ended December 31, 2008

General corporate expense increased \$0.3 million, or 2.9%, during 2009 compared to 2008. The increase was primarily due to an increase in pension expense resulting from the 2008 decline in the market value of our pension plan assets. This increase was partially offset by lower payroll costs due to reduced headcount, and less expense related to professional services.

Interest Expense

Interest expense decreased \$5.3 million, or 65.3%, in 2010 compared to 2009, due to lower outstanding debt levels and lower interest rates in 2010 compared to 2009. Interest expense decreased \$6.1 million, or 42.6%, in 2009 compared to 2008, due to lower outstanding debt levels and lower interest rates in 2009 compared to 2008. The decrease in interest rates is a result of the expiration of our interest rate swap on September 30, 2009. Our debt at December 31, 2010 and 2009 is described in Note D, *Long-Term Debt*, of the Notes to Consolidated Financial Statements, included herein.

Interest Income

Interest income was up slightly in 2010 compared to 2009 as lower interest rates offset the increase in average cash and cash equivalents. Interest income decreased \$0.2 million, or 51.9%, in 2009 compared to 2008 due to lower interest rates on investments in 2009 than in 2008.

Other Income and Expense

Other net expense for 2010 and 2009 primarily consists of currency transaction losses and balance-based bank charges.

Income Taxes

Year ended December 31, 2010 vs. Year ended December 31, 2009

Income taxes increased \$8.5 million in 2010 compared to 2009 due to higher pretax income levels and a higher effective tax rate. The effective income tax rate for 2010 was 37.9% compared to 33.7% in 2009. The increase in the effective tax rate is primarily due to a reduction to our uncertain tax liabilities related to state income taxes in 2009.

Year ended December 31, 2009 vs. Year ended December 31, 2008

Income taxes decreased \$14.6 million in 2009 compared to 2008 due to lower pretax income levels and a lower effective tax rate. The effective income tax rate for 2009 was 33.7% compared to 38.2% in 2008. The decrease in the effective tax rate is primarily due to a decrease in our state income tax resulting from a reduction to our uncertain tax liabilities, as well as operations in states with higher tax rates having been more negatively impacted by the economic downturn.

Economic Climate and Impact on our Financial Statements

The current economic climate has had a negative impact on our operations and cash flows for the year ended December 31, 2010, and our financial position at December 31, 2010. We cannot predict the timing, strength or duration of the current difficult economic environment or any subsequent improvement. If the economic climate and markets we serve deteriorate, we may record charges related to restructuring costs and the impairment of goodwill, other intangibles and long-lived assets, and our operations, cash flows and financial position may be materially and adversely affected.

Liquidity and Capital Resources

Sources and Uses of Cash

As of December 31, 2010, cash and cash equivalents were \$86.0 million, decreasing \$0.6 million from cash and cash equivalents at December 31, 2009. This net decrease was a result of net cash provided by operating

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activities of \$95.4 million, offset by net cash used in investing activities of \$30.1 million and net cash used in financing activities of \$65.8 million.

Operating Activities

Net cash provided by operating activities in 2010 was \$95.4 million, compared to \$114.0 million in 2009. The \$18.6 million year-over-year decrease was primarily attributable to changes within working capital assets and liabilities.

In 2010, our principal working capital changes, which directly affected net cash provided by operating activities, were as follows:

An increase in accounts receivable attributable to higher revenues in the fourth quarter of 2010 than in the fourth quarter of 2009. Days sales outstanding were approximately 59 days at December 31, 2010 and December 31, 2009;

An increase in inventory due to purchasing and holding higher levels of newsprint inventory in advance of increases in newsprint prices;

An increase in prepaid expenses and other current assets due to timing of payments;

An increase in accounts payable due to higher overall operating expenses in the fourth quarter of 2010 than in the fourth quarter of 2009;

An increase in accrued payroll and related expenses due to higher accrued incentive compensation at December 31, 2010 than at December 31, 2009;

An increase in customer deposits, unearned revenue and other current liabilities due to timing of receipts and increase in revenue levels; and

A decrease in income taxes payable due to the reversal of a prior year provision related to a tax statute that expired in 2010 and higher quarterly estimated taxes payments in 2010 than 2009.

Investing Activities

Net cash used in investing activities was \$30.1 million in 2010, compared to \$8.9 million in 2009. The \$21.3 million increase is the result of the August 2010 acquisition of Information Arts and an \$8.4 million increase in capital spending in 2010 compared to 2009.

Financing Activities

Net cash used in financing activities was \$65.8 million in 2010 compared to \$49.5 million in 2009. The \$16.3 million increase is attributable primarily to \$15.8 million more net debt repayments in 2010 than in 2009.

Credit Facilities

On September 6, 2006, we entered into a five-year \$200 million term loan facility (2006 Term Loan Facility) with Wells Fargo Bank, N.A., as Administrative Agent. On December 31, 2007, we began making the scheduled quarterly principal payments as follows:

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Quarterly	Percentage of
Installments	Drawn Amounts
1 8	2.50% each
9 12	3.75% each
13 15	5.00% each
Maturity Date	Remaining Principal Balance

The 2006 Term Loan Facility matures on September 6, 2011. For each borrowing under the 2006 Term Loan Facility, we can generally choose to have the interest rate for that borrowing calculated based on either (i) a Eurodollar (as defined in the 2006 Term Loan Facility) rate, plus a spread which is determined based on our total debt-to-EBITDA ratio (as defined in the 2006 Term Loan Facility) then in effect, and ranges from .315%

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to .60% per annum, or (ii) the higher of Wells Fargo Bank's prime rate in effect on such date or the Federal Funds rate in effect on such date plus .50%. There is a facility fee that we are also required to pay under the 2006 Term Loan Facility that is based on a facility fee rate applied to the outstanding principal balance owed under the 2006 Term Loan Facility. The facility fee rate ranges from .085% to .15% per annum, depending on our total debt-to-EBITDA ratio then in effect. We may elect to prepay the 2006 Term Loan Facility at any time without incurring any prepayment penalties. At December 31, 2010, we had \$117.0 million outstanding under the 2006 Term Loan Facility.

On March 7, 2008, we entered into a new four-year \$100 million term loan facility (2008 Term Loan Facility) with Wells Fargo Bank, N.A., as Administrative Agent. On March 31, 2009, we began making the scheduled quarterly principal payments as follows:

Quarterly	Percentage of
Installments	Drawn Amount
1 - 4	2.25% each
5 - 8	3.75% each
9 - 12	4.00% each

The 2008 Term Loan Facility matures on March 7, 2012. For each borrowing under the 2008 Term Loan Facility, we can generally choose to have the interest rate for that borrowing calculated based on either (i) a Eurodollar (as defined in the 2008 Term Loan Facility) rate, plus a spread which is determined based on our total debt-to-EBITDA ratio (as defined in the 2008 Term Loan Facility) then in effect, and ranges from .40% to .75% per annum, or (ii) the higher of Wells Fargo Bank's prime rate in effect on such date or the Federal Funds rate in effect on such date plus .50%. There is a facility fee that we are also required to pay under the 2008 Term Loan Facility that is based on a rate applied to the outstanding principal balance owed under the 2008 Term Loan Facility. The facility fee rate ranges from .10% to .25% per annum, depending on our total debt-to-EBITDA ratio then in effect. We may elect to prepay the 2008 Term Loan Facility at any time without incurring any prepayment penalties. At December 31, 2010, we had \$76.0 million outstanding under the 2007 Term Loan Facility.

On August 12, 2010, we entered into a new three-year \$70 million term loan facility, which includes a \$25 million letter of credit sub-facility and a \$5 million swingline loan sub-facility (2010 Revolving Credit Facility), with Bank of America, N.A., as Administrative Agent. The 2010 Revolving Credit Facility also permits us to request up to a \$25 million increase in the total amount of the facility. The 2010 Revolving Credit Facility matures on August 12, 2013. We intend to utilize the availability under the 2010 Revolving Credit Facility for general corporate purposes, including future repayments on our term loans. The 2010 Revolving Credit Facility replaced the five-year \$125 million revolving credit facility which we entered into on August 12, 2005 (2005 Revolving Credit Facility), under which we had no borrowings as of its expiration on August 12, 2010. For each borrowing under the 2010 Revolving Credit Facility, we can generally choose to have the interest rate for that borrowing calculated on either (i) the LIBOR rate for the applicable interest period, plus a spread which is determined based on our total net debt-to-EBITDA ratio then in effect, which spread ranges from 2.25% to 3.00% per annum; or (ii) the highest of (a) the Federal Funds Rate plus 0.50%, (b) the Agent's prime rate, and (c) the Eurodollar Rate plus 1.00%, plus a spread which is determined based on our total net debt-to-EBITDA ratio then in effect, which spread ranges from 1.25% to 2.00% per annum. There is a facility fee that we are also required to pay under the 2010 Revolving Credit Facility. The facility fee rate ranges from 0.40% to 0.45% per annum, depending on our total net debt-to-EBITDA ratio then in effect. In addition, there is a letter of credit fee with respect to outstanding letters of credit. That fee is calculated by applying a rate equal to the spread applicable to Eurodollar based loans plus a fronting fee of 0.125% per annum to the average daily undrawn amount of the outstanding letters of credit. We may elect to prepay the 2010 Revolving Credit Facility at any time. At December 31, 2010, we did not have any outstanding amounts drawn against our 2010

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Revolving Credit Facility. At December 31, 2010 we had letters of credit totaling \$11.8 million issued under the 2010 Revolving Credit Facility, decreasing the amount available for borrowing to \$58.2 million.

Under all of our credit facilities we are required to maintain an interest coverage ratio of not less than 2.75 to 1 and a total debt-to-EBITDA ratio of not more than 3.0 to 1. The credit facilities also contain covenants restricting our ability to grant liens and enter into certain transactions and limit the total amount of indebtedness of our subsidiaries.

The credit facilities each also include customary covenants regarding reporting obligations, delivery of notices regarding certain events, maintaining our corporate existence, payment of obligations, maintenance of our properties and insurance thereon at customary levels with financially sound and reputable insurance companies, maintaining books and records and compliance with applicable laws. The credit facilities each also provide for customary events of default including nonpayment of principal or interest, breach of representations and warranties, violations of covenants, failure to pay certain other indebtedness, bankruptcy and material judgments and liabilities, certain violations of environmental laws or ERISA or the occurrence of a change of control. As of December 31, 2010, we were in compliance with all of the covenants of our credit facilities.

Contractual Obligations

Contractual obligations at December 31, 2010 are as follows:

<i>In thousands,</i>	Total	2011	2012	2013	2014	2015	Thereafter
Debt	\$ 193,000	\$ 133,000	\$ 60,000	\$	\$	\$	\$
Operating leases	58,368	16,876	13,838	10,463	6,724	4,289	6,178
Capital leases	1,266	621	404	202	39		
Deferred compensation liability	3,734	702	702	702	702	352	574
Unfunded pension plan benefit payments	22,642	1,004	1,097	1,121	1,299	1,355	16,766
Other long-term obligations	3,109	1,471	1,444	194			