HARTE HANKS INC
Form 10-K
March 03, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

¨ **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)

Delaware	**74-1677284**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer 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 x

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 x

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

Indicate by check mark 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 ¨

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. x

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 x
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 x

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price ($9.25) as of the last business day of the registrant s most recently completed second fiscal quarter (June 30, 2009), was approximately $383,441,000.

The number of shares outstanding of each of the registrant s classes of common stock as of January 31, 2010 was 63,578,193 shares of common stock, all of one class.

Documents incorporated by reference:

Portions of the Proxy Statement to be filed for the Company s 2010 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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Form 10-K Report

December 31, 2009

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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 is under intense focus in many organizations. Many corporations have a chief-level executive charged with marketing who is under pressure to utilize a combination of data, technology, channels and resources to demonstrate a return on marketing investment. This has led many to use direct and targeted marketing, as accountability and measurability are hallmarks of the discipline, allowing customer insight to be leveraged to create and accelerate value. Direct Marketing, which represented 68% of our total revenues in 2009, is a leader in the movement toward highly targeted marketing. Our Shoppers business applies geographic targeting principles.

Harte-Hanks® is the successor to a newspaper business 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 the following address: *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

Direct Marketing services are targeted to specific industries or markets with services and software products tailored to each industry or market. Currently, our Direct Marketing business services various vertical markets including retail, high-tech/telecom, financial services, pharmaceutical/healthcare, and a wide range of selected markets. We believe that we are generally able to provide services to new industries and markets by modifying our services and applications as opportunities are presented. Depending on the needs of our clients, our Direct Marketing capabilities are provided in an integrated approach through more than 30 facilities worldwide, more than 10 of which are located outside of the United States. Each of these centers possesses some specialization and is linked with others to support the needs of our clients.

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In 2009, 2008 and 2007, Harte-Hanks Direct Marketing had revenues of $586.0 million, $732.7 million, and $732.5 million, respectively, which accounted for approximately 68%, 68%, and 63% of our total revenues, respectively.

Harte-Hanks Direct Marketing uses various capabilities and technologies as enablers to capture, analyze and disseminate customer and prospect data across all points of customer contact. With these data, we help our clients identify, reach, influence and nurture their customers so they can better grow their relationships to achieve lifetime value of each and increase return on marketing investments. We focus both on business-to-business and business-to-consumer environments, developing data-driven strategies for customer acquisition and retention, and execute on those strategies in an integrated fashion across media channels (direct mail, email, digital, and call center). Further, we help our clients measure their marketing and customer care campaigns, providing them with knowledge that can be applied now to refine campaigns, and delivering continuous improvement and innovation.

Depending on client needs, we do this through specific offerings or by combining a number of our offerings from across our portfolio of businesses.

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. We have a full-service, multichannel relationship marketing agency specializing in direct and digital communications. With strategy, creative and implementation services, we help marketers within targeted industries understand, identify, and engage prospects and customers in their channel of choice. Our agency s mission is to deploy world-class, data-driven, multichannel relationship marketing programs that address each client s acquisition, cross-sell, 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 Services 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. 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 Logistics. 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 maintain teleservice workstations around the globe equipped for both inbound and outbound calls and e-mail, and we are an experienced outsource partner for call and contact center operations. We also maintain fulfillment centers strategically located throughout the United States allowing our customers to distribute literature and other marketing materials.

Lead Generation. Our CI Technology Database   tracks technology installations, business demographics and key decision makers at more than 650,000 locations in twenty five countries in North America, Latin America and Europe. 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 helping organizations and individuals make business decisions. Aberdeen research serves as a conduit to drive technology decisions and stimulate demand for technology vendors while at the same time educating readers on best-in-class results. Companies use Aberdeen s proprietary research content for use in their demand creation programs, online marketing campaigns and Web-based sales and marketing tools.

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 2009 and 5% of our total revenues in 2009. The largest 25 clients, measured in revenue, comprised 42% of total Direct Marketing revenues in 2009 and 28% of our total revenues in 2009.

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 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
Bloomfield, Connecticut
Boston, Massachusetts
Cincinnati, Ohio
Deerfield Beach, Florida
East Bridgewater, Massachusetts
Fort Worth, Texas
Fullerton, California
Glen Burnie, Maryland
Grand Prairie, Texas
Jacksonville, Florida
Lake Mary, Florida
Langhorne, Pennsylvania
New York, New York
Ontario, California
Richardson, Texas
San Diego, California
Shawnee, Kansas
Texarkana, Texas
Troy, Michigan
Wilkes-Barre, Pennsylvania
Yardley, Pennsylvania

National Markets Headquarters
Cincinnati, Ohio

International Offices
Bristol, United Kingdom
Frankfurt, Germany
Hasselt, Belgium owned site
Iasi, Romania
Les Ulis, France
Madrid, Spain
Manila, Philippines
Melbourne, Australia
São Paulo, Brazil
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. 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. There are various competitive factors in our industry, including the quality and scope of services, technical and strategic expertise, the value of the services provided as compared to the price of the services, 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 Standard 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 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 segment also provides advertising and other services online through our websites, *PennySaverUSA.com* and *TheFlyer.com* . These sites are online advertising portals, bringing buyers and sellers together through our online products, including local classifieds, business listings, coupons, special offers and Power Sites . Power Sites 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.

As of December 31, 2009, Shoppers delivered approximately 11.5 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. Two editions of the shopper publication are delivered to approximately 230,000 households and businesses in South Orange County where both an early and late edition *PennySaverUSA.com* are published each week. Our California publications account for approximately 80% of Shoppers weekly circulation.

As of December 31, 2009, Harte-Hanks published more than 950 individual shopper editions each week, distributed to zones with circulation of approximately 12,000 each. This allows single-location, local advertisers to saturate a single 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. We believe that 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 allowing our advertisers to effectively target their customers.

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In 2009, 2008, and 2007, Harte-Hanks Shoppers had revenues of $274.2 million, $350.1 million, and $430.4 million, respectively, accounting for approximately 32%, 32%, and 37% of our total revenues, respectively.

As a result of the difficult economic environment 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 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.

Publications

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

		December 31, 2009	
Market	**Publication Name**	**Weekly Circulation**	**Number of Zones**
Greater Los Angeles	*PennySaverUSA.com*	5,123,100	458
Northern California	*PennySaverUSA.com*	2,266,300	189
Greater San Diego	*PennySaverUSA.com*	1,874,500	156
South Florida	*TheFlyer.com*	1,179,400	93
Greater Tampa	*TheFlyer.com*	1,065,700	72
Total		11,509,000	968

Our shopper publications contain classified and display advertising and are delivered by Standard Mail saturation. The typical shopper publication contains approximately 38 pages and is 7 by 9-1/2 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 2009, we distributed approximately 5.0 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 efficiency and growth. 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 3% of Shoppers revenues in 2009 and 1% of our total revenues in 2009. The top 25 clients in terms of revenue comprised 20% of Shoppers revenues in 2009 and 6% of our total revenues in 2009.

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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, 2009, we had five production facilities three in Southern California, one in Northern California, and one in Tampa, Florida and approximately 20 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, services and 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 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 2009, 2008 or 2007.

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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:

- 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.

- Federal and state laws governing the use of the Internet and regulating telemarketing, including the federal 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. 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.

- 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 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 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.

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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. 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 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 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.

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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, 2009, Harte-Hanks employed approximately 4,700 full-time employees and 300 part-time employees. Approximately 3,200 full-time and 100 part-time employees were in the Direct Marketing segment and 1,500 full-time and 200 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 inclu 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 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.

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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.

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.

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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 often severely affect the marketing services industry. Recently, 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 downturn in the United States economy and the economies we operate in abroad, such as the current recession, 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 difficulties and bankruptcy preference actions to recover certain amounts previously paid to us by our clients.

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

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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 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 increased in 2008 and 2009. The USPS did not file for a rate increase in February, and as a result we do not expect standard postage rates to increase in 2010. 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 May. Any such rate increase is capped at the average of the consumer price index from the previous December. 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, 2009, the net book value of our goodwill and other intangibles, represented approximately $569.2 million out of our total assets of $908.2 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.

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, 2009, we had $239.7 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 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 2009, approximately 15.0% of Harte-Hanks Direct Marketing s revenues and 10.2% 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;

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- 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;
- 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 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

- 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 3.4 million square feet. Approximately 3.2 million square feet are held under leases, which expire at dates through 2017. 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 2009 and 2008 were as follows:

	2009		2008	
	High	Low	High	Low
First Quarter	7.98	4.50	17.96	13.06
Second Quarter	10.14	5.21	14.33	11.15
Third Quarter	14.22	8.31	13.12	9.93
Fourth Quarter	14.48	9.25	10.32	4.43

In 2009 and 2008, quarterly dividends were paid at the rate of 7.5 cents per share.

We currently plan to pay a quarterly dividend of 7.5 cents per common share in each of the quarters in 2010, although any actual dividend declaration can be made only upon approval of our Board of Directors, based on its business judgment.

As of January 31, 2010, there are approximately 2,500 holders of record.

Issuer Purchases of Equity Securities

During the fourth quarter of 2009, 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, 2009, we had repurchased a total of 63,924,509 shares at an average price of $18.83 per share under this program. The maximum number of shares that may yet be purchased under this program was 10,475,491 at December 31, 2009.

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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, 2004 to December 31, 2009 with the Standard & Poor s 500 Stock Index (S&P 500 Index) and with a peer group including 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.

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.

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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, 2004 and assumes the reinvestment of dividends.

	Base Period	Years Ending				
	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09
Harte-Hanks, Inc.	100	102.33	108.39	68.55	25.46	45.52
S&P 500 Index	100	104.91	121.48	128.16	80.74	102.11
Peer Group	100	100.39	123.17	109.24	68.79	97.30

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ITEM 6. SELECTED FINANCIAL DATA

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, 2009, 2008, and 2007 is derived from audited financial statements contained in this Form 10-K. Information for the years ended December 31, 2006 and 2005 can be found in our previously filed Annual Reports on Form 10-K.

In thousands, except per share amounts	2009	2008	2007	2006	2005
Statement of Operations Data					
Revenues	$ 860,143	$ 1,082,821	$ 1,162,886	$ 1,184,688	$ 1,134,993
Operating expenses					
Labor, production and distribution	678,307	847,470	871,468	874,088	825,568
Advertising, selling, general and administrative	62,479	81,655	89,787	90,516	88,067
Shoppers legal settlement in principle	6,950				
Depreciation and amortization	28,265	33,429	33,195	31,566	29,918
Intangible amortization	1,712	2,950	3,509	2,466	1,427
Total operating expenses	777,713	965,504	997,959	998,636	944,980
Operating income	82,430	117,317	164,927	186,052	190,013
Interest expense, net	7,968	13,823	12,453	6,102	1,760
Net Income	$ 47,715	$ 62,741	$ 92,640	$ 111,792	$ 114,458
Earnings per common share diluted	$ 0.75	$ 0.98	$ 1.26	$ 1.39	$ 1.34
Cash dividends per common share	$ 0.30	$ 0.30	$ 0.28	$ 0.24	$ 0.20
Weighted-average common and common equivalent shares outstanding diluted	63,885	64,104	73,703	80,646	85,406
Segment Data					
Revenues					
Direct Marketing	$ 585,988	$ 732,740	$ 732,461	$ 709,728	$ 694,558
Shoppers	274,155	350,081	430,425	474,960	440,435
Total revenues	$ 860,143	$ 1,082,821	$ 1,162,886	$ 1,184,688	$ 1,134,993
Operating income (loss)					
Direct Marketing	$ 95,812	$ 103,121	$ 108,796	$ 109,458	$ 108,095
Shoppers	(1,354)	25,884	70,784	88,814	94,231
General corporate	(12,028)	(11,688)	(14,653)	(12,220)	(12,313)
Total operating income	$ 82,430	$ 117,317	$ 164,927	$ 186,052	$ 190,013
Capital expenditures	$ 9,011	$ 19,947	$ 28,217	$ 33,708	$ 28,215
Balance sheet data (at end of period)					
Current assets	$ 256,599	$ 241,203	$ 265,680	$ 279,975	$ 253,704
Property, plant and equipment, net	78,399	97,433	112,354	116,591	112,911
Goodwill and other intangibles, net	569,163	570,866	564,522	568,795	519,419
Total assets	908,151	913,566	951,926	969,285	889,663
Total debt	239,688	270,625	259,125	205,000	62,000
Total stockholders equity	$ 401,643	$ 356,372	$ 408,512	$ 493,476	$ 561,346

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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 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 and Shoppers.

In 2009, Harte-Hanks Direct Marketing had revenues of $586.0 million, which accounted for 68% of our total revenues. Direct Marketing services are targeted to specific industries or markets with services and software products tailored to each industry or market. Currently, our Direct Marketing business services various vertical markets including retail, high-tech/telecom, financial services, pharmaceutical/healthcare, and a wide range of selected markets. We believe that we are generally able to provide services to new industries and markets by modifying our services and applications as opportunities are presented. Depending on the needs of our clients, our Direct Marketing capabilities are provided in an integrated approach through more than 30 facilities worldwide, more than 10 of which are located outside of the United States. Each of these centers possesses some specialization and is linked with others to support the needs of our clients. We use various capabilities and technologies to enable our clients to capture, analyze and disseminate customer and prospect data across all points of customer contact.

We offer a full complement of capabilities and resources, including:

- agency and creative services;
- database marketing solutions;
- data quality software and services with Trillium Software;
- digital marketing;
- direct mail and logistics;
- fulfillment and contact centers; and
- lead generation.

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 Standard 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 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 segment also provides advertising and other services online through our websites, *PennySaverUSA.com* and *TheFlyer.com*. These sites are online advertising portals, bringing buyers and sellers together through our online products, including local classifieds, business listings,

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coupons, special offers and Power Sites. Power Sites 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. In 2009, our Shoppers segment had revenues of $274.2 million, which represented 32% of our total revenues.

At December 31, 2009, our Shoppers were zoned into more than 950 separate editions with total circulation of approximately 11.5 million 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 from July 2008 to February 2009. This consisted of approximately 850,000 of circulation in California and 550,000 of circulation 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 largely affected by the strength of the local economies.

Our businesses continued to face challenging economic environments in 2009, which negatively impacted our financial performance. Marketing budgets are often more discretionary in nature and easier to reduce in the short-term than other expenses in response to weak economic conditions. Difficult economic conditions, in some cases including 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. During 2009, the economic recession in the United States and other economies continued 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 California and Florida geographies in which we operate. Such expenditures are substantially affected by the strength of the local economies in those markets. During 2009, the negative trends and economic conditions that we have seen 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.

As a result of the challenging environments, we have taken actions designed to align our expense base and structure to the external economic environment facing our businesses. These actions have included headcount reductions, consolidating businesses and closing facilities, reductions of marginal Shoppers circulation, wage freezes and reductions, tightened management of capital spending, non-client travel restrictions and enhanced controls around accounts receivable and collections. These actions helped to produce improved margins in our Direct Marketing business while limiting the amount of margin lost in our Shoppers business, in spite of revenue declines of 20% or more in both businesses. Nevertheless, we cannot predict the impact of future economic conditions or the ultimate effectiveness of and expenses associated with our efforts to address those economic conditions.

Although economic uncertainty remains, and we believe that 2010 will continue to be challenging, we did see slight improvement in both businesses towards the end of the fourth quarter of 2009. Due to the structural changes we have made across our entire company, we believe that we are well positioned for an improved economic environment.

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

Results of Operations

Operating results were as follows:

In thousands except per share amounts	2009	% Change	2008	% Change	2007
Revenues	$ 860,143	-20.6	$ 1,082,821	-6.9	$ 1,162,886
Operating expenses	777,713	-19.5	965,504	-3.3	997,959
Operating income	$ 82,430	-29.7	$ 117,317	-28.9	$ 164,927
Net income	$ 47,715	-23.9	$ 62,741	-32.3	$ 92,640
Diluted earnings per share	$ 0.75	-23.5	$ 0.98	-22.2	$ 1.26

Year 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 logistics-related transportation 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 in principle. 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.

Year ended December 31, 2008 vs. Year ended December 31, 2007

Revenues

Consolidated revenues decreased 6.9%, to $1,082.8 million, in 2008 compared to 2007. Our overall results reflect decreased revenues of 18.7% from our Shoppers segment, partially offset by a slight increase in revenues from our Direct Marketing segment. In Shoppers, the negative trends and economic conditions in

California and Florida that we saw in 2007 continued and deteriorated throughout 2008. In Direct Marketing, the overall economic climate in the second half of 2008, and more specifically, the financial market events that occurred in the fourth quarter of 2008, dramatically influenced business and consumer confidence and resulted in an immediate adverse impact on our Direct Marketing revenue.

Operating Expenses

Overall operating expenses decreased 3.3%, to $965.5 million, in 2008 compared to 2007. This year-over-year change includes $10.4 million of expense recognized in 2008 and $9.0 million of expense recognized in 2007 related to cost management actions described above, designed to align our expense base with reduced revenue levels. The overall decrease in operating expenses was driven by the $35.4 million, or 9.9%, decrease in Shoppers operating expenses. Shoppers results were impacted by cost cutting measures and the decline in Shoppers revenues, and included declines in labor, production costs and general and administrative costs. Direct Marketing operating expenses increased $6.0 million, or 1.0%, and general corporate expense decreased $3.0 million or 20.2%.

Net Income/Earnings Per Share

Net income decreased 32.3%, to $62.7 million, while diluted earnings per share were down 22.2%, to $0.98 per share, in 2008 when compared to 2007. The decreases in net income and earnings per share were a result of decreased operating income, primarily at Shoppers, and increased interest expense, partially offset by lower general corporate expense and a lower effective tax rate in 2008 when compared to 2007.

Direct Marketing

Direct Marketing operating results were as follows:

In thousands	2009	% Change	2008	% Change	2007
Revenues	$ 585,988	-20.0	$ 732,740	0.0	$ 732,461
Operating expenses	490,176	-22.1	629,619	1.0	623,665
Operating income	$ 95,812	-7.1	$ 103,121	-5.2	$ 108,796

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.

2010 revenues will depend on, among other factors, the impact and duration of the economic recession and 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 cost of mailings is borne by our clients and is not directly reflected in our revenues or expenses.

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 logistics-related transportation 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 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.

Direct Marketing s largest cost components are labor, outsourced costs and transportation costs. Each of these costs is somewhat variable and tends to fluctuate with revenues and the demand for our direct marketing services. Fuel costs have increased significantly in the last few years and were at historically high levels throughout much of 2008 before decreasing significantly in the fourth quarter of 2008 and holding at those levels throughout 2009. Future changes in fuel 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 transportation services.

Year ended December 31, 2008 vs. Year ended December 31, 2007

Revenues

Direct Marketing revenues increased $0.3 million, or less than 0.1%, in 2008 compared to 2007. Revenues increased 3.2% during the first nine months of 2008 and decreased 8.1% during the fourth quarter of 2008, compared to the same periods in 2007. The financial market events of the fourth quarter resulted in many of our clients reducing or canceling marketing projects.

In 2008, our high tech/telecom and select markets verticals both experienced double-digit revenue growth. High tech/telecom results were primarily driven by the acquisition of Mason Zimbler in January of 2008 and increases in various services to an existing high tech client. The select markets increase was due to increased revenues from the automotive segment. Our retail vertical decreased in the low-single digits as a result of general economic conditions causing reduced consumer spending and the bankruptcy of several clients. The financial vertical was down in the high-single digits from decreases in retail banking and consumer finance businesses. Our pharma/healthcare vertical decreased double-digits primarily as the result of the healthcare segment within the vertical.

The acquisition of Mason Zimbler positively affected our revenues by approximately 1.0% in 2008 compared to 2007.

Operating Expenses

Operating expenses increased $6.0 million, or 1.0%, in 2008 compared to 2007. The results were affected by approximately $5.8 million and $4.2 million of costs, primarily severance and lease termination costs, recognized in 2008 and 2007, respectively, as part of the restructuring and cost-cutting initiatives discussed above. Labor costs decreased $3.6 million, or 1.1%, in 2008 compared to 2007 due to headcount reductions and lower incentive compensation. This decrease was partially offset by a $2.1 million increase in severance. Production and distribution costs increased $11.1 million, or 5.2%, due to higher logistics-related transportation costs resulting from increased volumes and higher fuel costs for much of 2008. General and administrative expense decreased $0.9 million, or 1.7%, due primarily to decreased travel, recruiting and training costs. This decrease was partially offset by increased outside sales commissions and higher bad debt expense due to several customers experiencing financial difficulties. Depreciation and amortization expense decreased $0.7 million, or 2.4%, due to certain intangible assets and software becoming fully amortized.

The acquisition of Mason Zimbler also contributed to the increase in operating expenses in 2008 compared to 2007.

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Shoppers

Shoppers operating results were as follows:

In thousands	2009	% Change	2008	% Change	2007
Revenues	$ 274,155	-21.7	$ 350,081	-18.7	$ 430,425
Operating expenses	275,509	-15.0	324,197	-9.9	359,641
Operating income	$ (1,354)	-105.2	$ 25,884	-63.4	$ 70,784

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. 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.

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 principle in the fourth quarter of 2009. Excluding this settlement in principle, 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 in principle. Excluding this settlement in principle, 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.

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. We realized a positive effect on our Shoppers labor costs in 2009 due to the circulation reductions described above. Standard postage rates have increased in recent years, and increased again in May 2009. Shoppers postage rates increased by approximately 1.4% as a result of the May 2009 rate increase. We do not expect standard postage rates to change in 2010. Any future changes in postage rates will affect Shoppers production costs. Newsprint prices increased over the first half of 2009 and then decreased in the second half of 2009. Any future changes in newsprint prices will affect Shoppers production costs. At the end of the first quarter of 2009, we completed the consolidation of our two Florida production facilities into one facility. We incurred approximately $2.0 million in costs in the first quarter related to this action. The 2009 savings from this consolidation was offset by the 2009 first quarter charges.

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Year ended December 31, 2008 vs. Year ended December 31, 2007

Revenues

Shoppers revenues decreased $80.3 million, or 18.7%, in 2008 compared to 2007. 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 unprofitable circulation of approximately 600,000 that were initiated in June 2007 and 250,000 that were initiated in July 2008. The circulation that was curtailed in June 2007 was in Northern and Southern California and represented approximately $3.0 million of revenue in 2007. The circulation that was curtailed in July 2008 was in Northern California and South Florida and represented approximately $1.9 million of revenue in 2008 and $4.1 million of revenue in 2007. In response to the continued difficult economic environments in California and Florida we curtailed an additional 500,000 circulation in South and Central Florida towards the end of December 2008. At December 31, 2008, our Shoppers circulation reached more than 12 million addresses in California and Florida each week.

Shoppers revenue decrease was slightly offset by the once every five to six year occurrence of one extra publication week in the fourth quarter of 2008. The 53rd week has historically been marginally profitable, and in 2008 we believe it generated a small loss.

Operating Expenses

Operating expenses decreased $35.4 million, or 9.9%, in 2008 compared to 2007. This decrease was partially offset by approximately $4.1 million and $2.4 million of costs recognized in 2008 and 2007 related to the restructuring, consolidation and circulation shut downs described below. Total labor costs decreased $14.2 million, or 11.0%, as a result of reductions in our Shoppers workforce due to restructuring, consolidations and circulation curtailments. This decline was partially offset by increased severance costs of $1.9 million. Total production costs decreased $15.1 million, or 8.0%, due primarily to decreased paper costs resulting from circulation curtailments, a decline in ad placements and lower newsprint rates, decreased postage due to circulation curtailments and decreased distribution volumes, and decreased offload printing costs due to decreased print-and-deliver volumes. Total general and administrative costs decreased $6.5 million, or 20.0%, due primarily to lower promotion-related expense. Partially offsetting this decrease was a $1.8 million increase in bad debt expense due to several customers experiencing financial difficulties. Depreciation and amortization expense increased $0.3 million, or 3.8%, due to the acceleration of depreciation of assets related to the circulation curtailments and plant consolidation. The overall decline in operating expenses was slightly offset by incremental expenses associated with the 53rd week of publication in 2008.

General Corporate Expense

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.

Year ended December 31, 2008 vs. Year ended December 31, 2007

General corporate expense decreased $3.0 million, or 20.2%, during 2008 compared to 2007. The decrease was primarily due to a $2.4 million decrease in labor due to $2.5 million of compensation costs recognized during the third quarter of 2007 associated with the retirement of former President and Chief Executive Officer Richard Hochhauser. The decrease in labor was partially offset by $0.5 million of severance costs recognized in 2008.

Interest Expense

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. Interest expense increased $1.2 million, or 9.3%, in 2008 compared to 2007 due to higher outstanding debt levels, primarily due to the repurchases of our common stock, in 2008 than in 2007. Our debt at December 31, 2009 and 2008 is described in Note D, *Long-Term Debt*, of the Notes to Consolidated Financial Statements, included herein.

Interest Income

Interest income decreased $0.2 million, or 51.9%, in 2009 and $0.2 million, or 29.9%, in 2008 compared to 2008 and 2007, respectively. These decreases were due to normal variances in cash levels and lower interest rates on investments than in the prior years.

Other Income and Expense

Other net expense for 2009 and 2008 primarily consists of currency transaction gains and losses and balance-based bank charges.

Income Taxes

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.

Year ended December 31, 2008 vs. Year ended December 31, 2007

Income taxes decreased $19.7 million in 2008 compared to 2007 due to lower pretax income levels. The effective income tax rate for 2008 was 38.2% compared to 38.7% in 2007. The decrease in the effective tax rate from 2007 to 2008 was primarily the result of the recognition of certain tax benefits in the first quarter of 2008. The effective income tax rate calculated is higher than the federal statutory rate of 35% due to the addition of state taxes.

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, 2009 and our financial position at December 31, 2009. We cannot predict the timing, strength or duration of the current economic recession or any subsequent economic recovery. 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, 2009, cash and cash equivalents were $86.6 million, increasing $56.4 million from cash and cash equivalents at December 31, 2008. This net increase was a result of net cash provided by operating activities of $114.0 million, offset by net cash used in investing activities of $8.9 million and net cash used in financing activities of $49.5 million.

Operating Activities

Net cash provided by operating activities in 2009 was $114.0 million, compared to $116.7 million in 2008. The $2.7 million year-over-year decrease was attributable to lower net income, changes within noncash expense items and changes within working capital assets and liabilities.

In 2009, our principal working capital changes, which directly affected net cash provided by operating activities, were as follows:

- A decrease in accounts receivable attributable to lower revenues in the fourth quarter of 2009 than in the fourth quarter of 2008. Days sales outstanding were approximately 59 days at December 31, 2009 compared to 58 days at December 31, 2008;

- A decrease in inventory due to Shoppers circulation curtailment, lower Shoppers ad placements and lower paper prices towards the end of 2009;

- A decrease in prepaid expenses and other current assets due to timing of payments;

- A decrease in accounts payable due to overall lower operating expenses in the fourth quarter of 2009 than in the fourth quarter of 2008 and lower workers compensation insurance reserves at December 31, 2009 than at December 31, 2008, partially offset by the $7.0 million accrual at December 31, 2009 for the legal settlement in principle;

- A decrease in accrued payroll and related expenses due to headcount reductions, timing of payroll payments and lower accrued commissions at December 31, 2009 than at December 31, 2008;

- A decrease in customer deposits and unearned revenue due to timing of receipts and decrease in revenue levels; and

- A decrease in income taxes payable due to the timing of quarterly estimated federal and state taxes payments and lower pretax income levels in 2009 than 2008.

Investing Activities

Net cash used in investing activities was $8.9 million in 2009, compared to $28.3 million in 2008. The $19.4 million decrease is the result of the January 2008 acquisition of Mason Zimbler and a $10.9 million decline in capital spending in 2009 compared to 2008.

Financing Activities

Net cash used in financing activities was $49.5 million in 2009 compared to $79.7 million in 2008. The $30.2 million decrease is attributable primarily to $76.6 million spent to repurchase our common stock in 2008. We did not repurchase any of our common stock in 2009. This decrease was partially offset by $42.4 million more net debt repayments in 2009 than in 2008.

Credit Facilities

On August 12, 2005, we entered into a five-year $125 million revolving credit facility (Revolving Credit Facility) with JPMorgan Chase Bank, N.A., as Administrative Agent. The Revolving Credit Facility allows us to obtain revolving credit loans. For each borrowing under the Revolving Credit Facility, we can generally choose to have the interest rate for that borrowing calculated based on either JPMorgan Chase Bank s publicly announced New York prime rate or on a Eurodollar (as defined in the Revolving Credit Facility) rate plus a spread. The spread is determined based on our total debt-to-EBITDA (as defined in the Revolving Credit Facility) ratio then in effect, and ranges from .315% to .60% per annum. There is a facility fee that we are also required to pay under the Revolving Credit Facility that is based on a rate applied to the total commitment amount under the Revolving Credit Facility, regardless of how much of that commitment we have actually drawn upon. The facility fee rate ranges from .085% to .15% per annum, depending on our total debt-to-EBITDA ratio then in effect. The Revolving Credit Facility matures on August 12, 2010. We did not have any debt outstanding under the Revolving Credit Facility at December 31, 2009.

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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:

Quarterly Installments	Percentage of 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% 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, 2009, we had $148.7 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 Installments	Percentage of Drawn Amount
1 4	2.25% each
5 8	3.75% each
9 12	4.00% each
Maturity Date	Remaining Principal Balance

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, 2009, we had $91.0 million outstanding under the 2007 Term Loan Facility.

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 and our subsidiaries ability to grant liens and enter into certain transactions and limit the total amount of indebtedness of our subsidiaries to $20 million.

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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, 2009, we were in compliance with all of the covenants of our credit facilities.

Contractual Obligations

Contractual obligations at December 31, 2009 are as follows:

In thousands,	**Total**	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**
Debt	$ 239,688	$ 46,688	$ 133,000	$ 60,000	$	$	$
Operating leases	64,300	21,068	14,402	11,131	8,285	5,244	4,170
Capital leases	2,083	826	616	397	205	39	
Deferred compensation liability	4,135	702	702	702	702	704	623
Unfunded pension plan benefit payments	20,593	915	955	1,081	1,188	1,372	15,082
Other long-term obligations	837	431	354	52			
Total contractual cash obligations	$ 331,636	$ 70,630	$ 150,029	$ 73,363	$ 10,380	$ 7,359	$ 19,875

At December 31, 2009, we had letters of credit in the amount of $13.9 million. No amounts were drawn against these letters of credit at December 31, 2009. These letters of credit renew annually and exist to support insurance programs relating to workers compensation, automobile and general liability. We had no other off-balance sheet arrangements at December 31, 2009.

Dividends

We paid a quarterly dividend of 7.5 cents per common share in each of the quarters in the years ended December 31, 2009 and 2008. We currently plan to pay a quarterly dividend of 7.5 cents per common share in each of the quarters in 2010, although any actual dividend declaration can be made only upon approval of our Board of Directors, based on its business judgment.

Share Repurchase

We did not repurchase any shares of our common stock under our stock repurchase program in 2009. As of December 31, 2009, we have repurchased 63.9 million shares since the beginning of our January 1997 stock repurchase program. Under this program, we had authorization to repurchase 10.5 million additional shares at December 31, 2009.

Outlook

We consider such factors as total cash and cash equivalents, current assets, current liabilities, total debt, revenues, operating income and cash flows from operations, investing activities and financing activities when assessing our liquidity. Our primary sources of liquidity have been cash and cash equivalents on hand and cash generated from operating activities. Our management of cash is designed to optimize returns on cash balances and to ensure that it is readily available to meet our operating, investing and financing requirements as they arise. Capital resources are also available from and provided through our Revolving Credit Facility, subject to the terms and conditions of that facility.

The amount of cash on hand and borrowings available under our Revolving Credit Facility are influenced by a number of factors, including fluctuations in our operating results, revenue growth, accounts receivable collections, working capital changes, capital expenditures, tax payments, share repurchases, pension plan contributions, acquisitions and dividends.

Recent developments in the financial markets have increased our exposure to the possible liquidity and credit risks of counterparties to our Revolving Credit Facility. As of December 31, 2009, we had $112.2 million of unused borrowing capacity under our Revolving Credit Facility, and we have not experienced any limitations to date on our ability to access this source of liquidity. At December 31, 2009, we had a cash balance of $86.6 million. Based on our current operational plans, we believe that our Revolving Credit Facility, together with cash on hand and cash provided by operating activities, will be sufficient to fund operations, anticipated capital expenditures, payments of principal and interest on our borrowings, and dividends on our common stock for at least the next twelve months. Nevertheless, we cannot predict the impact on our business performance of the economic recession in the United States and other economies. A lasting economic recession in the United States and other economies could have a material adverse effect on our business, financial position or operating results.

Our Revolving Credit Facility matures in August 2010. If the ongoing disruptions in the credit markets continue for an extended period of time, we may be unable to obtain a replacement facility on acceptable terms or at all. In that event, depending on our ability to generate sufficient cash flow from operations, our overall liquidity and ability to make payments on our indebtedness under our 2006 Term Loan Facility (which matures in September 2011) and our 2008 Term Loan Facility (which matures in March 2012) 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.

Critical Accounting Policies

Critical accounting policies are defined as those that, in our judgment, are most important to the portrayal of our company s financial condition and results of operations and which require complex or subjective judgments or estimates. The areas that we believe involve the most significant management estimates and assumptions are detailed below. Actual results could differ materially from those estimates under different assumptions and conditions. Historically, actual results have not differed significantly from our estimates.

Revenue Recognition

We recognize revenue when all of the following criteria are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) the service has been performed or the product has been delivered.

Payments received in advance of the performance of services or delivery of the product are recorded as deferred revenue until such time as the services are performed or the product is delivered.

Our accounting policy for revenue recognition has an impact on our reported results and relies on certain estimates that require judgments on the part of management. The portion of our revenue that is most subject to estimates and judgments is revenue recognized using the proportional performance method, as discussed below.

Direct Marketing revenue is derived from a variety of services and products, and may be billed at hourly rates, monthly rates or a fixed price. For all sales, we require either a purchase order, a statement of work signed by the client, a written contract, or some other form of written authorization from the client.

Revenue from agency and creative services, analytical services and market research is typically billed based on time and materials or at a fixed price. If billed at a fixed price, revenue is recognized on a proportional performance basis as the services specified in the arrangement are performed. In most cases, proportional performance is based on the ratio of direct costs incurred to total estimated costs where the costs incurred, primarily labor hours and outsourced services, represent a reasonable surrogate for output measures or contract

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performance. For fixed fee market research revenue streams, revenue is recognized in proportion to the value of service provided based on output criteria. Contracts accounted for under the proportional performance method constituted less than 6.5% of total Direct Marketing revenue and less than 4.5% of our total revenue for each of the years ended December 31, 2009, 2008 and 2007.

Revenue from email marketing, social media marketing and other digital solutions is recognized as the work is performed. Revenue from these services is typically based on a fixed price or rate given to the client.

Revenue associated with new marketing database builds is deferred until complete or until client acceptance. Upon completion or acceptance, it is then recognized over the term of the related arrangement as the services are provided. Revenue from database and website hosting services is recognized ratably over the contractual hosting period. Pricing for database builds are typically based on a fixed price and hosting fees are typically based on a fixed price per month or per contract.

Revenue from technology database subscriptions is based on a fixed price and is recognized ratably over the term of the subscription.

Revenue from services such as data processing, printing, personalization of communication pieces using laser and inkjet printing, targeted mail, and transportation logistics is recognized as the work is performed. Revenue from these services is typically based on a fixed price or rate given to the client.

Revenue related to fulfillment and contact centers, including inbound and outbound calling and email management, is also typically based on a fixed price per transaction or service provided. Revenue from these services is recognized as the service or activity is performed.

Revenue from software arrangements involving multiple elements is allocated to each element based on the vendor-specific objective evidence of fair values of the respective elements. For software sales with multiple elements (for example, software licenses with undelivered post-contract customer support or PCS), we allocate revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements. This means we defer revenue from the software sale equal to the fair value of the undelivered elements. The fair value of PCS is based upon separate sales of renewals to other clients. The fair value of services, such as training and consulting, is based upon separate sales of these services to other clients.

The revenue allocated to PCS is recognized ratably over the term of the support period. Revenue allocated to professional services is recognized as the services are performed. The revenue allocated to software products, including time-based software licenses, is recognized, if collection is probable, upon execution of a licensing agreement and shipment of the software or ratably over the term of the license, depending on the structure and terms of the arrangement. If the licensing agreement is for a term of one year or less and includes PCS, we recognize the software and the PCS revenue ratably over the term of the license.

For certain non-software arrangements, we enter into contracts that include delivery of a combination of two or more of our service offerings. Such arrangements are divided into separate units of accounting, provided that the delivered element(s) has stand-alone value and objective and reliable evidence of the fair value of the undelivered element(s) exit(s).

When we are able to unbundle the arrangement into separate units of accounting, revenue from each service is recognized separately, and in accordance with our revenue recognition policy for each element. If we are unable to unbundle the arrangement into separate units of accounting, we apply one of the revenue recognition policies to the entire arrangement. This might impact the timing of revenue recognition, but would not change the total revenue recognized from the arrangement.

Shopper services are considered rendered, and the revenue recognized, when all printing, sorting, labeling and ancillary services have been provided and the mailing material has been received by the USPS.

Taxes collected from customers and remitted to governmental authorities are not reflected in our revenues or expenses.

Allowance for Doubtful Accounts

We maintain our allowance for doubtful accounts at a balance adequate to reduce accounts receivable to the amount of cash expected to be realized upon collection. The methodology used to determine the allowance balance is based on our prior collection experience and is generally related to the accounts receivable balance in various aging categories. The balance is also influenced by specific clients financial strength and circumstance. Accounts that are determined to be uncollectible are written off in the period in which they are determined to be uncollectible. Periodic changes to the allowance balance are recorded as increases or decreases to bad debt expense, which is included in the Advertising, selling, general and administrative line of our Consolidated Statements of Operations. We recorded bad debt expense of $2.1 million, $5.8 million and $3.5 million for the years ended December 31, 2009, 2008 and 2007, respectively. At December 31, 2009 and 2008 our allowance for doubtful accounts was $2.8 million and $4.2 million, respectively. While we believe our reserve estimate to be appropriate, we may find it necessary to adjust the allowance for doubtful accounts if future bad debt expense exceeds the estimated reserve. Current economic conditions increase the difficulty and level of management judgment in setting the reserve. Given the significance of accounts receivable to the consolidated financial statements, the determination of net realizable values is considered to be a critical accounting estimate.

Reserve for Healthcare, Workers Compensation, Automobile and General Liability

We are self-insured for our workers compensation, automobile, general liability and a portion of our healthcare insurance. We make various subjective judgments about a number of factors in determining our reserve for healthcare, workers compensation, automobile and general liability insurance, and the related expense. Our deductible for individual healthcare claims is $0.2 million. Our deductible for workers compensation is $0.5 million per claim. We have a $0.3 million deductible per claim automobile and general liability. Our insurance administrator provides us with estimated loss reserves, based upon its experience dealing with similar types of claims, as well as amounts paid to date against these claims. We apply actuarial factors to both insurance estimated loss reserves and to paid claims and then determine reserve levels, taking into account these calculations. At December 31, 2009 and 2008, our reserve for healthcare, workers compensation, automobile and general liability was $12.3 million and $13.1 million, respectively. If ultimate losses were 10% higher than our estimate at December 31, 2009, net income would be impacted by approximately $0.8 million, net of taxes. The amount that earnings would be impacted is dependent on the claim year and our deductible levels for that plan year. Periodic changes to the reserve for workers compensation, automobile and general liability are recorded as increases or decreases to insurance expense, which is included in the Advertising, selling, general and administrative line of our Consolidated Statement of Operations. Periodic changes to the reserve for healthcare are recorded as increases or decreases to employee benefits expense, which is included in the Labor line of our Consolidated Statement of Operations.

Goodwill

Goodwill is recorded to the extent that the purchase price of an acquisition exceeds the fair value of the identifiable net assets acquired. We assess the impairment of our goodwill by determining the fair value of each of our reporting units and comparing the fair value to the carrying value for each reporting unit. We have identified our reporting units as Direct Marketing and Shoppers. At December 31, 2009 and 2008, the net book value of our goodwill was $552.9 million and was allocated to our reporting units as follows:

	December 31,	
In thousands	**2009**	**2008**
Direct Marketing	$ 385,399	$ 385,390
Shoppers	167,487	167,487
Total goodwill	$ 552,886	$ 552,877

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We performed our annual goodwill impairment testing for both the Direct Marketing and Shoppers segments as of November 30, 2009. As quoted market prices are not available for our reporting units, estimated fair value was determined using a discounted cash flow (DCF) model and a cash flow multiple (CFM) model, with consideration of our overall market capitalization. The DCF and CFM models utilize projected financial results based on historical performance and management s estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions. Determining fair value requires the exercise of significant judgments, including judgments about appropriate discount rates, the amount and timing of expected future cash flows, and perpetual growth rates. If a reporting unit s carrying amount exceeds its fair value, we must calculate the implied fair value of the reporting unit s goodwill by allocating the reporting unit s fair value to all of its assets and liabilities (recognized and unrecognized) in a manner similar to a purchase price allocation, and then compare this implied fair value to its carrying amount. To the extent that the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recorded.

A summary of the critical assumptions utilized for our annual impairment test in 2009 are outlined below. We believe this information, coupled with our sensitivity analysis, provide relevant information to understand our goodwill impairment testing and evaluate our goodwill balances.

For the annual goodwill impairment test performed on November 30, 2009, we did not significantly change the methodology from 2008 to determine the fair value of our reporting units. We made changes to certain assumptions utilized in the models for 2009 compared with the prior year due to the U.S. and global economic environments, which affect Direct Marketing, and the economic environments in California and Florida, which affect Shoppers. The following is a summary analysis of the significant assumptions used in our models, as well as a sensitivity analysis on the impact of changes in certain assumptions to our overall conclusion concerning impairment of our goodwill balances.

Discount Rate

The discount rate represents the expected return on capital. The discount rate was determined using a target structure of 30% debt and 70% equity. We used the interest rate of a 30-year government security to determine the risk-free rate in our weighted average cost of capital calculation.

Growth Assumptions

Projected annual growth rates and terminal growth rates are primarily driven by management s best estimate of future performance, giving consideration to historical performance and existing and anticipated economic and competitive conditions. These assumptions also take into account expense reductions and restructuring measures taken in 2008 and 2009 in both businesses. The assumed growth rates used in our 2009 calculations were lower than historical growth rates for the respective businesses.

Sensitivity Analysis

The estimated fair value of our Direct Marketing reporting unit was significantly above its carrying value.

In order to analyze the sensitivity of our assumptions on the results of our Shoppers impairment assessment, we determined the impact that a hypothetical 15% reduction in fair value would have on our conclusions. In the case of our Shoppers reporting unit, a 15% decline in fair value would not result in the reporting unit s carrying value to be in excess of its fair value.

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If changes in the fair value of our reporting units caused the carrying value of a reporting unit to exceed its fair value, the second step of the goodwill impairment test would be required to be performed to determine the ultimate amount of impairment loss to record.

The determination of recoverability of goodwill requires significant judgment and estimates regarding future cash flows and fair values. These estimates are subject to change and could result in impairment losses being recognized in the future. If different reporting units or different valuation methodologies had been used, the impairment test results could have differed.

Stock-based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. Determining the fair value of share-based awards requires judgment, including in some cases estimating expected term, volatility and dividend yield. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from some of these estimates, stock-based compensation expense and our results of operations could be materially impacted. For the years ended December 31, 2009, 2008 and 2007, we recorded total stock-based compensation expense of $3.9 million, $5.8 million and $7.1 million, respectively.

Recent Accounting Pronouncements

As discussed in Note A of the Notes to Consolidated Financial Statements, certain new financial accounting pronouncements have been issued which either have already been reflected in the accompanying consolidated financial statements, or will become effective for our financial statements at various dates in the future. Our adoption of FASB ASC 805, *Business Combinations*, in 2009 will affect the way we account for future acquisitions, including acquisition-related costs, contingencies and contingent consideration, and may also impact the amount of information we disclose about acquisitions.

The adoption of the remaining new accounting pronouncements discussed in Note A of the Notes to Consolidated Financial Statements have not and are not expected to have a material effect on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk includes the risk of loss arising from adverse changes in market rates and prices. We face market risks related to interest rate variations and to foreign exchange rate variations. From time to time, we may utilize derivative financial instruments as described below to manage our exposure to such risks.

We are exposed to market risk for changes in interest rates related to our credit facilities. Our earnings are affected by changes in short-term interest rates as a result of our credit facilities, which bear interest at variable rates based on Eurodollar rates (effective 30 day rate of 0.23% at December 31, 2009). The five-year $125 million Revolving Credit Facility has a maturity date of August 12, 2010. At December 31, 2009, we did not have any debt outstanding under the Revolving Credit Facility. The five-year $200 million 2006 Term Loan Facility has a maturity date of September 6, 2011. At December 31, 2009, our debt balance related to the 2006 Term Loan Facility was $148.7 million. The four-year 2008 Term Loan Facility has a maturity date of March 7, 2012. At December 31, 2009, our debt balance related to the 2008 Term Loan Facility was $91.0 million. In September 2007, we entered into a two-year interest rate swap with a notional amount of $150 million and a fixed rate of 4.655% in order to limit a portion of our interest rate exposure by converting a portion of our variable-rate debt to fixed-rate debt. This interest rate swap expired on September 30, 2009.

Assuming the actual level of borrowing throughout 2009, and assuming a one percentage point change in the year s average interest rates, it is estimated that our 2009 net income would have changed by approximately $1.0 million. Due to our overall debt level and cash balance at December 31, 2009, anticipated cash flows from

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operations, and the various financial alternatives available to management should there be an adverse change in interest rates, we do not believe that we currently have significant exposure to market risks associated with changing interest rates.

Our earnings are also affected by fluctuations in foreign currency exchange rates as a result of our operations in foreign countries. Our primary exchange rate exposure is to the Euro, British pound sterling, Australian dollar, Philippine peso and Brazilian real. We monitor these risks throughout the normal course of business. The majority of the transactions of our U.S. and foreign operations are denominated in the respective local currencies. Changes in exchange rates related to these types of transactions are reflected in the applicable line items making up operating income in our Statement of Operations. Due to the current level of operations conducted in foreign currencies, we do not believe that the impact of fluctuations in foreign exchange rates on these types of transactions is significant to our overall annual earnings. A smaller portion of our transactions are denominated in currencies other than the respective local currencies. For example, inter-company transactions that are expected to be settled in the near-term are denominated in U.S. dollars. Since the accounting records of our foreign operations are kept in the respective local currency, any transactions denominated in other currencies are accounted for in the respective local currency at the time of the transaction. Any foreign currency gain or loss from these transactions results in an adjustment to income, which is recorded in Other, net in our Statement of Operations. Transactions such as these amounted to $1.2 million in pre-tax currency transaction losses in 2009. At this time 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.

We do not enter into derivative instruments for any purpose other than cash flow hedging. We do not speculate using derivative instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements required to be presented under Item 8 are presented in the Consolidated Financial Statements and the notes thereto beginning at page F-1 of this Form 10-K (Financial Statements).

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the 1934 Act). It should be noted that, because of inherent limitations, our disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the disclosure controls and procedures are met. Based upon that evaluation, the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded that the design and operation of these disclosure controls and procedures were effective, at the reasonable assurance level, to ensure information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

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As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, of our internal control over financial reporting to determine whether any changes occurred during the fourth quarter of 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there were no changes in our internal control over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We may make changes in our internal control processes from time to time in the future. It should also be noted that, because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and controls may become inadequate because of changes in conditions or in the degree of compliance with the policies or procedures.

Management s Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting are set forth in the Consolidated Financial Statements beginning on page F-1.

ITEM 9B. OTHER INFORMATION
None.

PART III

Some of the information required by Items 10 through 14 of this Part III is incorporated by reference from our definitive proxy statement to be filed for our 2010 annual meeting of stockholders (2010 Proxy Statement), as indicated below. Our 2010 Proxy Statement will be filed with the SEC not later than 120 days after December 31, 2009. Because the 2010 Proxy Statement has not yet been finalized and filed, there may be certain discrepancies between the currently anticipated section headings specified below and the final section headings contained in the 2010 Proxy Statement.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
Directors and Executive Officers

The information required by this item regarding our directors and executive officers will be set forth in our 2010 Proxy Statement under the caption Directors and Executive Officers , which information is incorporated herein by reference.

Section 16(a) Compliance

The information to appear in our 2010 Proxy Statement under the caption General Information Section 16(a) Beneficial Ownership Reporting Compliance is incorporated herein by reference.

Code of Ethics and Other Governance Information

The information required by this item regarding the Supplemental Code of Ethics for our Senior Financial Officers (Code of Ethics), audit committee financial experts, audit committee members and procedures for stockholder recommendations of nominees to our Board of Directors will be set forth in our 2010 Proxy Statement under the caption Corporate Governance , which information is incorporated herein by reference.

Our Code of Ethics may be found on our website at *www.harte-hanks.com* by clicking on the link About Us and then the link Corporate Governance, and a copy of our Code of Ethics is also available in print, without charge, upon written request to Harte-Hanks, Inc., Attn: Corporate Secretary, 9601 McAllister Freeway, Suite 610, San Antonio, Texas 78216. In accordance with the rules of the NYSE and the SEC, we currently intend to disclose any future amendments to our Code of Ethics, or waivers from our Code of Ethics for our Chief Executive Officer, Chief Financial Officer and Controller, by posting such information on our website (*www.harte-hanks.com*) within the time period required by applicable SEC and NYSE rules.

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Management Certifications

In accordance with the Sarbanes-Oxley Act of 2002 and SEC rules thereunder, our Chief Executive Officer and Chief Financial Officer have signed certifications under Sarbanes-Oxley Section 302, which have been filed as exhibits to this Form 10-K. In addition, our Chief Executive Officer submitted his most recent annual certification to the NYSE under Section 303A.12(a) of the NYSE listing standards on May 18, 2009.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item regarding the compensation of our named executive officers and directors and other required information will be set forth in our 2010 Proxy Statement under the captions Executive Compensation, and Director Compensation, which information is incorporated herein by reference. In accordance with the rules of the SEC, information to be contained in the 2010 Proxy Statement under the caption Compensation Committee Report is not deemed to be filed with the SEC or subject to the liabilities of the 1934 Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Beneficial Ownership Tables

The information required by this item regarding security ownership of certain beneficial owners, management and directors will be set forth in our 2010 Proxy Statement under the caption Security Ownership of Management and Principal Stockholders, which information is incorporated herein by reference.

Equity Compensation Plan Information

The information required by this item regarding securities authorized for issuance under equity compensation plans will be set forth in our 2010 Proxy Statement under the caption Executive Compensation Equity Compensation Plan Information at Year-End 2009, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Transactions with Related Persons

The information required by this item regarding transactions with related persons, including our policies and procedures for the review, approval or ratification of related person transactions that are required to be disclosed under the SEC s rules and regulations, will be set forth in our 2010 Proxy Statement under the caption Corporate Governance Certain Relationships and Related Transactions, which information is incorporated herein by reference.

Director Independence

The information required by this item regarding director independence will be set forth in our 2010 Proxy Statement under the caption Corporate Governance Independence of Directors, which information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item regarding the audit committee s pre-approval policies and procedures and the disclosures of fees billed by our principal independent auditor will be set forth in our 2010 Proxy Statement under the caption Audit Committee and Independent Registered Public Accounting Firm, which information is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

15(a)(1) Financial Statements

The financial statements filed as part of this report and referenced in Item 8 are presented in the Consolidated Financial Statements and the notes thereto beginning at page F-1 of this Form 10- K (Financial Statements).

15(a)(2) Financial Statement Schedules

All schedules for which provision is made in the applicable rules and regulations of the SEC have been omitted as the schedules are not required under the related instructions, are not applicable, or the information required thereby is set forth in the Consolidated Financial Statements or notes thereto.

15(a)(3) Exhibits

The Exhibit Index following the Notes to Consolidated Financial Statements in this Form 10-K lists the exhibits that are filed or furnished, as applicable, as part of this Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Harte-Hanks, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HARTE-HANKS, INC.

By: /s/ Larry Franklin
Larry Franklin
President and Chief Executive Officer
Date: March 3, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Larry Franklin
Larry Franklin
Chairman, President and Chief Executive Officer
Date: March 3, 2010

/s/ Douglas Shepard
Douglas Shepard
Executive Vice President and Chief Financial Officer
Date: March 3, 2010

/s/ Jessica Huff
Jessica Huff
Vice President, Finance and Chief Accounting Officer
Date: March 3, 2010

/s/ William K. Gayden
William K. Gayden, Director
Date: March 3, 2010

/s/ Houston H. Harte
Houston H. Harte, Vice Chairman
Date: March 3, 2010

/s/ Christopher M. Harte
Christopher M. Harte, Director
Date: March 3, 2010

/s/ David L. Copeland
David L. Copeland, Director
Date: March 3, 2010

/s/ Judy C. Odom
Judy C. Odom, Director
Date: March 3, 2010

/s/ William F. Farley
William F. Farley, Director
Date: March 3, 2010

/s/ Karen A. Puckett
Karen A. Puckett, Director
Date: March 3, 2010

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Harte-Hanks, Inc. and Subsidiaries

Index to Consolidated Financial Statements

All schedules for which provision is made in the applicable rules and regulations of the SEC have been omitted as the schedules are not required under the related instructions, are not applicable, or the information required thereby is set forth in the consolidated financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Harte-Hanks, Inc.:

We have audited the accompanying consolidated balance sheets of Harte-Hanks, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, cash flows, and stockholders equity and comprehensive income for each of the years in the three-year period ended December 31, 2009. We also have audited the Company s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying report, *Management s Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harte-Hanks, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Harte-Hanks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

San Antonio, Texas

March 3, 2010

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Management s Report on Internal Control Over Financial Reporting

We are responsible for the preparation and integrity of the consolidated financial statements appearing in our Annual Report. The consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles and include amounts based on management s estimates and judgments. All other financial information in this report has been presented on a basis consistent with the information included in the consolidated financial statements.

We are also responsible for establishing and maintaining adequate internal control over financial reporting. We maintain a system of internal control that is designed to provide reasonable assurance as to the fair and reliable preparation and presentation of the consolidated financial statements, as well as to safeguard assets from unauthorized use or disposition.

Our control environment is the foundation for our system of internal control over financial reporting. It sets the tone of our organization and includes factors such as integrity and ethical values. Our internal control over financial reporting is supported by formal policies and procedures that are reviewed, modified and improved as changes occur in business conditions and operations.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, meets periodically with members of management, the internal auditors and the independent auditors to review and discuss internal controls over financial reporting and accounting and financial reporting matters. Our independent registered public accounting firm and internal auditors report to the Audit Committee and accordingly have full and free access to the Audit Committee at any time.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in *Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission*. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on our evaluation, we concluded that our internal control over financial reporting was effective as of December 31, 2009.

KPMG LLP, an independent registered public accounting firm, has issued a report on the effectiveness of the Company s internal control over financial reporting, which is included on page F-2 of this Form 10-K.

March 3, 2010

/s/ Larry Franklin
Larry Franklin
President and Chief Executive Officer

/s/ Douglas Shepard
Douglas Shepard
Executive Vice President and

Chief Financial Officer

/s/ Jessica Huff
Jessica Huff
Vice President, Finance and

Chief Accounting Officer

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Harte-Hanks, Inc. and Subsidiaries Consolidated Balance Sheets

In thousands, except per share and share amounts	December 31, 2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 86,598	$ 30,161
Accounts receivable *(less allowance for doubtful accounts of $2,827 in 2009 and $4,191 in 2008)*	140,062	169,418
Inventory	4,846	7,481
Prepaid expenses	12,790	14,169
Deferred income tax asset	9,905	13,000
Other current assets	2,398	6,974
Total current assets	256,599	241,203
Property, plant and equipment		
Land	3,365	3,347
Buildings and improvements	38,615	38,972
Software	93,553	90,938
Equipment and furniture	182,832	189,784
	318,365	323,041
Less accumulated depreciation and amortization	(243,873)	(231,197)
	74,492	91,844
Software development and equipment installations in progress	3,907	5,589
Net property, plant and equipment	78,399	97,433
Intangible and other assets		
Goodwill, net	552,886	552,877
Other intangible assets *(less accumulated amortization of $13,953 in 2009 and $12,241 in 2008)*	16,277	17,989
Other assets	3,990	4,064
Total intangible and other assets	573,153	574,930
Total assets	$ 908,151	$ 913,566
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 46,688	$ 30,938
Accounts payable	42,386	48,182
Accrued payroll and related expenses	15,290	22,177
Customer deposits and deferred revenue	54,055	58,227
Income taxes payable	6,114	9,128
Other current liabilities	8,670	19,083
Total current liabilities	173,203	187,735
Long-term debt	193,000	239,687
Other long-term liabilities *(including deferred income taxes of $77,980 in 2009 and $65,723 in 2008)*	140,305	129,772
Total liabilities	506,508	557,194

Stockholders equity		
Common stock, $ 1 par value, authorized: 250,000,000 shares		
Issued 2009: 118,242,582; Issued 2008: 118,085,480 shares	118,243	118,085
Additional paid-in capital	333,612	331,227
Retained earnings	1,217,975	1,189,376
Less treasury stock, 2009: 54,668,032; 2008: 54,672,070 shares at cost	(1,236,217)	(1,236,581)
Accumulated other comprehensive loss	(31,970)	(45,735)
Total stockholders equity	401,643	356,372
Total liabilities and stockholders equity	$ 908,151	$ 913,566

See Accompanying Notes to Consolidated Financial Statements.

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Harte-Hanks, Inc. and Subsidiaries Consolidated Statements of Operations

	Year Ended December 31,		
In thousands, except per share amounts	**2009**	**2008**	**2007**
Operating revenues	$ 860,143	$ 1,082,821	$ 1,162,886
Operating expenses			
Labor	366,077	448,769	468,675
Production and distribution	312,230	398,701	402,793
Advertising, selling, general and administrative	62,479	81,655	89,787
Shoppers legal settlement in principle	6,950		
Depreciation and amortization	28,265	33,429	33,195
Intangible asset amortization	1,712	2,950	3,509
Total operating expenses	777,713	965,504	997,959
Operating income	82,430	117,317	164,927
Other expenses (income)			
Interest expense	8,150	14,201	12,992
Interest income	(182)	(378)	(539)
Other, net	2,520	1,925	1,337
	10,488	15,748	13,790
Income before income taxes	71,942	101,569	151,137
Income tax expense	24,227	38,828	58,497
Net income	$ 47,715	$ 62,741	$ 92,640
Basic earnings per common share	$ 0.75	$ 0.98	$ 1.28
Weighted-average common shares outstanding	63,557	63,933	72,524
Diluted earnings per common share	$ 0.75	$ 0.98	$ 1.26
Weighted-average common and common equivalent shares outstanding	63,885	64,104	73,703

See Accompanying Notes to Consolidated Financial Statements.

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Harte-Hanks, Inc. and Subsidiaries Consolidated Statements of Cash Flows

	Year Ended December 31,		
In thousands	2009	2008	2007
Cash Flows from Operating Activities			
Net income	$ 47,715	$ 62,741	$ 92,640
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	28,265	33,429	33,195
Intangible asset amortization	1,712	2,950	3,509
Stock-based compensation	3,889	5,827	7,067
Excess tax benefits from stock-based compensation	(13)	(342)	(2,455)
Pension expense	8,906	1,827	2,179
Deferred income taxes	6,092	13,529	8,631
Other, net	163	192	556
Changes in operating assets and liabilities, net of effects from acquisitions:			
Decrease (increase) in accounts receivable, net	29,356	31,477	(10,251)
Decrease (increase) in inventory	2,635	(1,474)	1,949
Decrease in prepaid expenses and other current assets	5,955	4,063	2,010
(Decrease) increase in accounts payable	(5,796)	(21,548)	8,314
(Decrease) increase in other accrued expenses and other liabilities	(14,060)	(16,034)	2,221
Other, net	(797)	64	(6,350)
Net cash provided by operating activities	114,022	116,701	143,215
Cash Flows from Investing Activities			
Acquisitions, net of cash acquired		(8,688)	
Purchases of property, plant and equipment	(9,011)	(19,947)	(28,217)
Proceeds from the sale of property, plant and equipment	142	339	120
Net cash used in investing activities	(8,869)	(28,296)	(28,097)
Cash Flows from Financing Activities			
Borrowings		197,000	123,000
Payments on borrowings	(30,937)	(185,500)	(68,875)
Issuance of common stock	555	4,203	16,747
Excess tax benefits from stock-based compensation	13	342	2,455
Purchase of treasury stock		(76,649)	(183,867)
Dividends paid	(19,116)	(19,101)	(20,299)
Net cash used in financing activities	(49,485)	(79,705)	(130,839)
Effect of exchange rate changes on cash and cash equivalents	769	(1,386)	298
Net increase (decrease) in cash and cash equivalents	56,437	7,314	(15,423)
Cash and cash equivalents at beginning of year	30,161	22,847	38,270
Cash and cash equivalents at end of year	$ 86,598	$ 30,161	$ 22,847

See Accompanying Notes to Consolidated Financial Statements.

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Harte-Hanks, Inc. and Subsidiaries Consolidated Statements of Stockholders Equity and Comprehensive Income

In thousands, except per share amounts	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2006	$ 116,497	$ 295,555	$ 1,073,395	$ (974,625)	$ (17,346)	$ 493,476
Common stock issued employee stock purchase plan	213	3,851				4,064
Exercise of stock options	983	13,163		(1,892)		12,254
Net tax effect of stock options		3,554				3,554
Stock-based compensation		7,057				7,057
Dividends paid ($0.28 per share)			(20,299)			(20,299)
Treasury stock issued		2		179		181
Treasury stock repurchased				(183,867)		(183,867)
Comprehensive income, net of tax:						
Net income			92,640			92,640
Adjustment to pension liability (net of tax benefit of $ 595)					(484)	(484)
Change in value of derivative instrument accounted for as a cash flow hedge (net of tax benefit of $ 1,038)					(1,557)	(1,557)
Foreign currency translation adjustment					1,493	1,493
Total comprehensive income						92,092
Balance at December 31, 2007	$ 117,693	$ 323,182	$ 1,145,736	$ (1,160,205)	$ (17,894)	$ 408,512
Common stock issued employee stock purchase plan	298	2,639				2,937
Exercise of stock options and release of non-vested shares	94	1,267		(49)		1,312
Net tax effect of stock options and non-vested shares		(1,550)				(1,550)
Stock-based compensation		5,827				5,827
Dividends paid ($0.30 per share)			(19,101)			(19,101)
Treasury stock issued		(138)		322		184
Treasury stock repurchased				(76,649)		(76,649)
Comprehensive income, net of tax:						
Net income			62,741			62,741
Adjustment to pension liability (net of tax benefit of $ 15,259)					(22,886)	(22,886)
Change in value of derivative instrument accounted for as a cash flow hedge (net of tax benefit of $ 762)					(1,146)	(1,146)
Foreign currency translation adjustment					(3,809)	(3,809)
Total comprehensive income						34,900
Balance at December 31, 2008	$ 118,085	$ 331,227	$ 1,189,376	$ (1,236,581)	$ (45,735)	$ 356,372
Common stock issued employee stock purchase plan	85	402				487
Exercise of stock options and release of non-vested shares	73	44		(129)		(12)
Net tax effect of stock options and non-vested shares		(1,621)				(1,621)
Stock-based compensation		3,889				3,889
Dividends paid ($0.30 per share)			(19,116)			(19,116)
Treasury stock issued		(329)		493		164
Comprehensive income, net of tax:						
Net income			47,715			47,715
Adjustment to pension liability (net of tax expense of $ 5,631)					8,446	8,446
Change in value of derivative instrument accounted for as a cash flow hedge (net of tax expense of $ 1,800)				&		