

HARTE HANKS INC  
Form 10-Q  
November 01, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2010

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-7120

**HARTE-HANKS, INC.**

(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The number of shares outstanding of each of the registrant's classes of common stock as of October 15, 2010 was 63,625,589 shares of common stock, all of one class.

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**HARTE-HANKS, INC. AND SUBSIDIARIES**

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**Item 1. Interim Condensed Consolidated Financial Statements**  
**Harte-Hanks, Inc. and Subsidiaries**

**Condensed Consolidated Balance Sheets (in thousands, except share amounts)**

	<b>September 30, 2010 (Unaudited)</b>	<b>December 31, 2009 (Audited)</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 76,305	\$ 86,598
Accounts receivable ( <i>less allowance for doubtful accounts of \$3,024 at September 30, 2010 and \$2,827 at December 31, 2009</i> )	149,812	140,062
Inventory	5,854	4,846
Prepaid expenses	13,552	12,790
Current deferred income tax asset	9,610	9,905
Other current assets	2,939	2,398
<b>Total current assets</b>	<b>258,072</b>	<b>256,599</b>
Property, plant and equipment ( <i>less accumulated depreciation of \$252,214 at September 30, 2010 and \$243,873 at December 31, 2009</i> )	73,730	78,399
Goodwill, net	565,895	552,886
Other intangible assets ( <i>less accumulated amortization of \$14,686 at September 30, 2010 and \$13,953 at December 31, 2009</i> )	15,544	16,277
Other assets	4,655	3,990
<b>Total assets</b>	<b>\$ 917,896</b>	<b>\$ 908,151</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Current maturities of long-term debt	\$ 142,500	\$ 46,688
Accounts payable	57,334	42,386
Accrued payroll and related expenses	17,341	15,290
Customer deposits and deferred revenue	51,819	54,055
Income taxes payable	5,681	6,114
Other current liabilities	9,792	8,670
<b>Total current liabilities</b>	<b>284,467</b>	<b>173,203</b>
Long-term debt	64,000	193,000
Other long-term liabilities ( <i>including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009</i> )	139,653	140,305
<b>Total liabilities</b>	<b>488,120</b>	<b>506,508</b>
<b>Stockholders' equity</b>		
Common stock, \$1 par value per share, 250,000,000 shares authorized. 118,287,583 shares issued at September 30, 2010 and 118,242,582 shares issued at December 31, 2009	118,288	118,243
Additional paid-in capital	336,234	333,612
Retained earnings	1,241,619	1,217,975
	(1,236,076)	(1,236,217)

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Less treasury stock: 54,665,616 shares at cost at September 30, 2010 and 54,668,032 shares at cost at December 31, 2009		
Accumulated other comprehensive loss	(30,289)	(31,970)
Total stockholders' equity	429,776	401,643
Total liabilities and stockholders' equity	\$ 917,896	\$ 908,151

See Notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****Harte-Hanks, Inc. and Subsidiaries****Consolidated Statements of Operations (in thousands, except per share amounts)****(Unaudited)**

	<b>Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Operating revenues	\$ 216,745	\$ 209,318
Operating expenses		
Labor	88,038	87,331
Production and distribution	81,019	76,543
Advertising, selling, general and administrative	16,854	14,445
Depreciation and software amortization	5,578	6,633
Intangible asset amortization	201	453
Total operating expenses	191,690	185,405
Operating income	25,055	23,913
Other expenses (income)		
Interest expense	705	2,456
Interest income	(69)	(55)
Other, net	1,865	457
	2,501	2,858
Income before income taxes	22,554	21,055
Income tax expense	8,739	7,005
Net income	\$ 13,815	\$ 14,050
Basic earnings per common share	\$ 0.22	\$ 0.22
Weighted-average common shares outstanding	63,622	63,570
Diluted earnings per common share	\$ 0.22	\$ 0.22
Weighted-average common and common equivalent shares outstanding	64,076	64,108

See Notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****Harte-Hanks, Inc. and Subsidiaries****Consolidated Statements of Operations (in thousands, except per share amounts)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Operating revenues	\$ 624,533	\$ 642,654
Operating expenses		
Labor	258,573	276,577
Production and distribution	232,519	233,702
Advertising, selling, general and administrative	49,941	46,474
Depreciation and software amortization	16,823	21,939
Intangible asset amortization	733	1,359
Total operating expenses	558,589	580,051
Operating income	65,944	62,603
Other expenses (income)		
Interest expense	2,102	7,447
Interest income	(136)	(145)
Other, net	1,506	2,159
	3,472	9,461
Income before income taxes	62,472	53,142
Income tax expense	24,472	18,919
Net income	\$ 38,000	\$ 34,223
Basic earnings per common share	\$ 0.60	\$ 0.54
Weighted-average common shares outstanding	63,612	63,550
Diluted earnings per common share	\$ 0.59	\$ 0.54
Weighted-average common and common equivalent shares outstanding	64,119	63,813

See Notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****Harte-Hanks, Inc. and Subsidiaries****Consolidated Statements of Cash Flows (in thousands)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 38,000	\$ 34,223
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and software amortization	16,823	21,939
Intangible asset amortization	733	1,359
Stock-based compensation	2,954	3,072
Excess tax benefits from stock-based compensation		(13)
Net pension cost	4,722	6,680
Deferred income taxes	5,763	5,174
Other, net	123	108
Changes in operating assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable, net	(7,548)	40,270
(Increase) decrease in inventory	(1,008)	2,399
(Increase) decrease in prepaid expenses and other current assets	(1,533)	4,578
Increase (decrease) in accounts payable	13,912	(11,855)
Decrease in other accrued expenses and other current liabilities	(757)	(16,364)
Other, net	(9,467)	3,060
 Net cash provided by operating activities		