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HARTE HANKS INC Form 10-Q November 01, 2010 Table of Contents

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### **FORM 10-Q**

(Ma	ark One)
X	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** (State or other jurisdiction of

74-1677284 (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 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 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 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.

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

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#### FORM 10-Q REPORT

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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)

Assets		September 30, 2010 (Unaudited)		December 31, 2009 (Audited)	
Cash and cash equivalents         \$ 76,305         \$ 86,598           Accounts receivable (less allowance for doubtful accounts of \$3,024 at September 30, 2010 and \$2,827 at December 31, 2009)         149,812         140,062           Inventory         5,884         4,846           Prepaid expenses         13,552         12,790           Current deferred income tax asset         9,610         9,905           Other current assets         2,939         2,388           Total current assets         258,072         256,599           Property, plant and equipment (less accumulated depreciation of \$252,214 at September 30, 2010 and \$23,373 at December 31, 2009)         73,730         78,399           Goodwill, net         565,895         552,886           Other intangible assets (less accumulated amortization of \$14,686 at September 30, 2010 and \$13,933 at December 31, 2009)         15,544         16,277           Other assets         \$ 917,896         \$ 908,151           Liabilities and Stockholders Equity         51,544         16,277           Current maturities of long-term debt         \$ 142,500         \$ 46,688           Accounts payable         \$ 73,34         42,386           Accounts payable         \$ 5,681         6,114           Other current liabilities         284,67         173,203 <td< th=""><th>Assets</th><th></th><th></th><th></th><th></th></td<>	Assets				
Accounts receivable (less allowance for doubtful accounts of \$3,024 at September 30, 2010 and \$2,827 at December 31, 2009)	Current assets				
Accounts receivable (less allowance for doubtful accounts of \$3,024 at September 30, 2010 and \$2,827 at 2009)   149,812   140,062   149,812   140,062   149,812   140,062   149,812   140,062   149,812   140,062   149,812   140,062   149,812   140,062   149,812   149,812   140,062   149,812   14	Cash and cash equivalents	\$	76,305	\$	86,598
at December 31, 2009)         149,812         140,062           Inventory         5,854         4,866           Inventory         5,854         4,846           Prepaid expenses         13,552         12,790           Current deferred income tax asset         9,061         9,005           Other current assets         258,072         256,599           Property, plant and equipment (less accumulated depreciation of \$252,214 at September 30, 2010 and \$23,373         78,399           Goodwill, net         37,373         78,399           Goodwill, net         365,895         552,886           Other intangible assets (less accumulated amortization of \$14,686 at September 30, 2010 and \$13,953         365,895         552,886           Other assets         \$917,896         \$908,151         16,277           Other assets         \$917,896         \$908,151           Liabilities and Stockholders Equity         591,896         \$908,151           Current maturities of long-term debt         \$142,500         \$46,688           Accounts payable         57,334         42,386           Account payable         57,334         42,386           Account payable         58,807         61,000         18,000           Customer deposits and deferred revenue         58	•		,		,
Inventory         5,854         4,846           Prepaid expenses         13,552         12,790           Other current derered income tax asset         9,610         9,905           Other current assets         258,072         256,599           Total current assets         258,072         256,599           Property, plant and equipment (less accumulated depreciation of \$252,214 at September 30, 2010 and \$23,337         73,730         78,399           Goodwill, net         565,895         552,886           Other intangible assets (less accumulated amortization of \$14,686 at September 30, 2010 and \$13,953 at December 31, 2009)         15,544         16,277           Other assets         \$ 917,896         \$ 908,151           Liabilities and Stockholders Equity         Total assets         \$ 917,896         \$ 908,151           Liabilities and Stockholders Equity         Current maturities of long-term debt         \$ 142,500         \$ 46,688           Accrued payroll and related expenses         7,334         15,290           Current properties and deferred revenue         51,819         54,055           Income taxes payable         51,819         54,055           Other current liabilities         9,792         8,670           Total current liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and 37,209<			149,812		140,062
Prepaid expenses         13,552         12,790           Current deferred income tax asset         9,610         9,905           Other current assets         2,839         2,339           Total current assets         258,072         256,599           Property, plant and equipment (less accumulated depreciation of \$252,214 at September 30, 2010 and \$252,214 at December 31, 2009)         73,730         78,399           Goodwill, net         565,895         552,886           Other intangible assets (less accumulated amortization of \$14,686 at September 30, 2010 and \$13,953 at December 31, 2009)         15,544         16,277           Other assets         4,655         3,990           Total assets         \$ 917,896         \$ 908,151           Liabilities and Stockholders Equity         5         4,688           Current liabilities         \$ 142,500         \$ 46,688           Accounts payable         57,334         42,386           Current payroll and related expenses         17,341         15,290           Sustained deferred revenue         51,819         54,055           Income taxes payable         5,681         6,114           Other ourrent liabilities         284,467         173,203           Long-term debt         64,000         193,000           Other l			5,854		4,846
Current deferred income tax asset         9,610         9,005           Other current assets         2,939         2,388           Total current assets         258,072         256,599           Property, plant and equipment (less accumulated depreciation of \$252,214 at September 30, 2010 and \$234,873 at December 31, 2009)         73,730         78,399           Goodwill, net         565,895         552,886           Other intangible assets (less accumulated amortization of \$14,686 at September 30, 2010 and \$13,933         15,544         16,277           Other assets         4,655         3,990           Total assets         917,896         \$908,151           Liabilities and Stockholders Equity         51,249         \$46,688           Accounts payable         \$142,500         \$46,688           Accounts payable         \$1,319         54,055           Accrued payorul and related expenses         17,341         15,290           Customer deposits and deferred revenue         51,819         54,055           Incoge taxes payable         \$5,681         61,10           Other current liabilities         \$284,467         173,203           Long-term debt         \$48,102         50,508           Total current liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and 18,242,582 shares iss			13,552		12,790
Other current assets         2,939         2,398           Total current assets         258,072         256,599           Property, plant and equipment (less accumulated depreciation of \$252,214 at September 30, 2010 and \$243,873 at December 31, 2009)         73,730         78,399           Goodwill, net         565,895         552,886           Other intangible assets (less accumulated amortization of \$14,686 at September 30, 2010 and \$13,953 at December 31, 2009)         15,544         16,277           Other assets         917,896         \$908,151           Liabilities and Stockholders Equity         12,240         \$46,688           Current liabilities         \$142,500         \$46,688           Accounts payable         \$73,334         42,386           Accounts payable accumulated expenses         17,341         15,290           Customer deposits and deferred revenue         51,819         54,055           Income taxes payable         56,81         6,114           Other current liabilities         9,792         8,670           Total current liabilities         284,467         173,203           Long-term debt         64,000         193,000           Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$13,000         140,305           Total liabilities			9.610		9,905
Property, plant and equipment (less accumulated depreciation of \$252,214 at September 30, 2010 and \$243,873 at December 31, 2009)	Other current assets				
Property, plant and equipment (less accumulated depreciation of \$252,214 at September 30, 2010 and \$243,873 at December 31, 2009)	Total current assets		258 072		256 599
\$243,873 at December 31, 2009)         73,730         78,399           Goodwill, net         565,895         552,886           Other intangible assets (less accumulated amortization of \$14,686 at September 30, 2010 and \$13,953 at December 31, 2009)         15,544         16,277           Other assets         4,655         3,990           Total assets         \$917,896         \$908,151           Liabilities and Stockholders Equity         \$917,896         \$908,151           Current liabilities         \$142,500         \$46,688           Account payable         \$142,500         \$46,688           Accounts payable         \$17,334         15,290           Customer deposits and deferred revenue         \$1,819         \$4,055           Income taxes payable         \$5,881         6,114           Other current liabilities         \$9,792         8,670           Total current liabilities         284,467         173,203           Long-term debt         64,000         193,000           Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$87,980 at December 31, 2009)         139,653         140,305           Total liabilities         488,120         \$06,508         \$06,508           Stockholders equity         \$6,508         \$6,508	Total Current assets		230,072		230,399
Goodwill, net         565,895         552,886           Other intangible assets (less accumulated amortization of \$14,686 at September 30, 2010 and \$13,953 at December 31, 2009)         15,544         16,277           Other assets         4,655         3,990           Total assets         \$ 917,896         \$ 908,151           Liabilities and Stockholders Equity         State of			73,730		78.399
Other intangible assets (less accumulated amortization of \$14,686 at September 30, 2010 and \$13,953 at December 31, 2009)         15,544 16,277 (16,277)         16,277 (16,277)         16,277 (16,277)         16,277 (16,277)         16,277 (16,277)         16,277 (16,277)         3,909         3,909         3,909         1,000					
at December 31, 2009)         15,544         16,277           Other assets         4,655         3,990           Total assets         \$917,896         \$908,151           Liabilities and Stockholders Equity           Current liabilities           Current maturities of long-term debt         \$142,500         \$46,688           Accounts payable         57,334         42,386           Accounts payable 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           Total current liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)         139,653         140,305           Total liabilities         488,120         506,508           Stockholders equity           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         333,6124         12,17,975			200,070		22,000
Other assets         4,655         3,990           Total assets         \$ 917,896         \$ 908,151           Liabilities and Stockholders Equity           Current liabilities           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           Total current liabilities         64,000         193,000           Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)         139,653         140,305           Total liabilities         488,120         506,508           Stockholders equity           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         118,248           Additional paid-in capital         336,234         3336,234         3336,234           Retained earnings         1,241,619         1,241,619         1,241,679 </td <td></td> <td></td> <td>15,544</td> <td></td> <td>16.277</td>			15,544		16.277
Total assets   \$917,896   \$908,151					
Current maturities         \$ 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           Total current liabilities         64,000         193,000           Other long-term debt         64,000         193,000           Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)         139,653         140,305           Total liabilities         488,120         506,508           Stockholders equity         488,120         506,508           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	Total assets	\$	917,896	\$	908,151
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           Total current liabilities         64,000         193,000           Other long-term debt         64,000         193,000           Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)         139,653         140,305           Total liabilities         488,120         506,508           Stockholders equity         488,120         506,508           Stockholders equity         118,288         118,243           Additional paid-in capital         336,234         333,612           Retained earnings         1,241,619         1,217,975	Liabilities and Stockholders Equity				
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         Total current liabilities       284,467       173,203         Long-term debt       64,000       193,000         Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)       139,653       140,305         Total liabilities       488,120       506,508         Stockholders equity       500,000,000 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	Current liabilities				
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         Total current liabilities       284,467       173,203         Long-term debt       64,000       193,000         Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)       139,653       140,305         Total liabilities       488,120       506,508         Stockholders equity       506,508       506,508 <td>Current maturities of long-term debt</td> <td>\$</td> <td>142,500</td> <td>\$</td> <td>46,688</td>	Current maturities of long-term debt	\$	142,500	\$	46,688
Customer deposits and deferred revenue         51,819         54,055           Income taxes payable         5,681         6,114           Other current liabilities         9,792         8,670           Total current liabilities         284,467         173,203           Long-term debt         64,000         193,000           Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)         139,653         140,305           Total liabilities         488,120         506,508           Stockholders equity         2         2           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	Accounts payable		57,334		42,386
Income taxes payable         5,681         6,114           Other current liabilities         9,792         8,670           Total current liabilities         284,467         173,203           Long-term debt         64,000         193,000           Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)         139,653         140,305           Total liabilities         488,120         506,508           Stockholders equity         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	Accrued payroll and related expenses		17,341		15,290
Other current liabilities         9,792         8,670           Total current liabilities         284,467         173,203           Long-term debt         64,000         193,000           Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)         139,653         140,305           Total liabilities         488,120         506,508           Stockholders equity         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	Customer deposits and deferred revenue		51,819		54,055
Total current liabilities       284,467       173,203         Long-term debt       64,000       193,000         Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)       139,653       140,305         Total liabilities       488,120       506,508         Stockholders equity         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	Income taxes payable		5,681		6,114
Long-term debt       64,000       193,000         Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)       139,653       140,305         Total liabilities       488,120       506,508         Stockholders equity         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	Other current liabilities		9,792		8,670
Long-term debt       64,000       193,000         Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)       139,653       140,305         Total liabilities       488,120       506,508         Stockholders equity       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	Total current liabilities		284.467		173.203
Other long-term liabilities (including deferred income taxes of \$84,923 at September 30, 2010 and \$77,980 at December 31, 2009)       139,653       140,305         Total liabilities       488,120       506,508         Stockholders equity       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					
\$77,980 at December 31, 2009)       139,653       140,305         Total liabilities       488,120       506,508         Stockholders equity         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			04,000		193,000
Stockholders equity         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			139,653		140,305
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	Total liabilities		488,120		506,508
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	Stockholders equity				
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	Common stock, \$1 par value per share, 250,000,000 shares authorized. 118,287,583 shares issued at				
Additional paid-in capital       336,234       333,612         Retained earnings       1,241,619       1,217,975			118,288		118,243
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.

#### Harte-Hanks, Inc. and Subsidiaries

#### Consolidated Statements of Operations (in thousands, except per share amounts)

#### (Unaudited)

		Three Months Ended September 30, 2010 2009		
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
operating meaning		20,000		20,510
Other expenses (income)				
Interest expense		705		2,456
Interest income		(69)		(55)
Other, net		1,865		457
oner, nec		1,003		137
		2.501		2 050
		2,501		2,858
Income before income taxes		22.554		21,055
		22,554		
Income tax expense		8,739		7,005
Net income	\$	13,815	\$	14,050
Net income	Ψ	13,613	φ	14,050
Basic earnings per common share	\$	0.22	\$	0.22
Weighted-average common shares outstanding		63,622		63,570
Direction of the second of the	<b>*</b>	0.00	ф	0.22
Diluted earnings per common share	\$	0.22	\$	0.22
Weighted-average common and common equivalent shares outstanding		64,076		64,108
in against a relage common and common equivalent shares outstanding		01,070		01,100

See Notes to Unaudited Condensed Consolidated Financial Statements.

#### Harte-Hanks, Inc. and Subsidiaries

#### Consolidated Statements of Operations (in thousands, except per share amounts)

#### (Unaudited)

	Nine Months 2010	Nine Months Ended September 30, 2010 2009		
Operating revenues	\$ 624,53	3 \$	642,654	
	, , , , , ,		, i	
Operating expenses				
Labor	258,57	3	276,577	
Production and distribution	232,51	9	233,702	
Advertising, selling, general and administrative	49,94	1	46,474	
Depreciation and software amortization	16,82	3	21,939	
Intangible asset amortization	73	3	1,359	
Total operating expenses	558,58	9	580,051	
Operating income	65,94	4	62,603	
- Frame are an are a second			0_,000	
Other expenses (income)				
Interest expense	2,10	2.	7,447	
Interest income	(13		(145)	
Other, net	1,50		2,159	
			_,,	
	3,47	2	9,461	
	5,47	2	2,401	
Income before income taxes	62,47	2	53,142	
Income tax expense	24,47		18,919	
meone ax expense	27,77	2	10,717	
Net income	\$ 38,00	0 \$	34,223	
100 moone	Ψ 30,00	σ	37,223	
Basic earnings per common share	\$ 0.6	0 \$	0.54	
		_	<b></b>	
Weighted-average common shares outstanding	63,61	2	63,550	
Diluted earnings per common share	\$ 0.5	9 \$	0.54	
Diffued earnings per common share	φ 0.2	<i>)</i>	0.34	
Weighted-average common and common equivalent shares outstanding	64,11	9	63,813	

See Notes to Unaudited Condensed Consolidated Financial Statements.

#### Harte-Hanks, Inc. and Subsidiaries

#### **Consolidated Statements of Cash Flows (in thousands)**

#### (Unaudited)

	Nine Months Ended September 30,			
	2010			2009
Cash Flows from Operating Activities				
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