WE MAKE it HAPPEN

HARTE-HANKS, INC.   2000 ANNUAL REPORT

WE MAKE it HAPPEN

The right people, the right tools, the right attitude.

Today's business landscape is more firmly anchored by technology than ever. Yet the application and support of that technology — and the development of successful direct and interactive marketing programs — remain a challenge for many companies worldwide.

The solution is Harte-Hanks. Through a variety of services — Web page design to e-care, desktop database capabilities to systems integration, personalized mail to e-mail, software products to hosting, both e- and traditional fulfillment to shopper ads on paper and the Internet — we offer clients fully integrated marketing solutions.

In other words, at Harte-Hanks, we make it happen.

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Direct Marketing

Customer Relationship Management (CRM) and Marketing Services

CRM enables companies to enhance their relationships with customers by responding to customer needs. At Harte-Hanks, we helped define CRM. This includes building and maintaining databases, as well as providing access to and analysis of data. These services help us deliver full-spectrum direct and interactive marketing solutions.

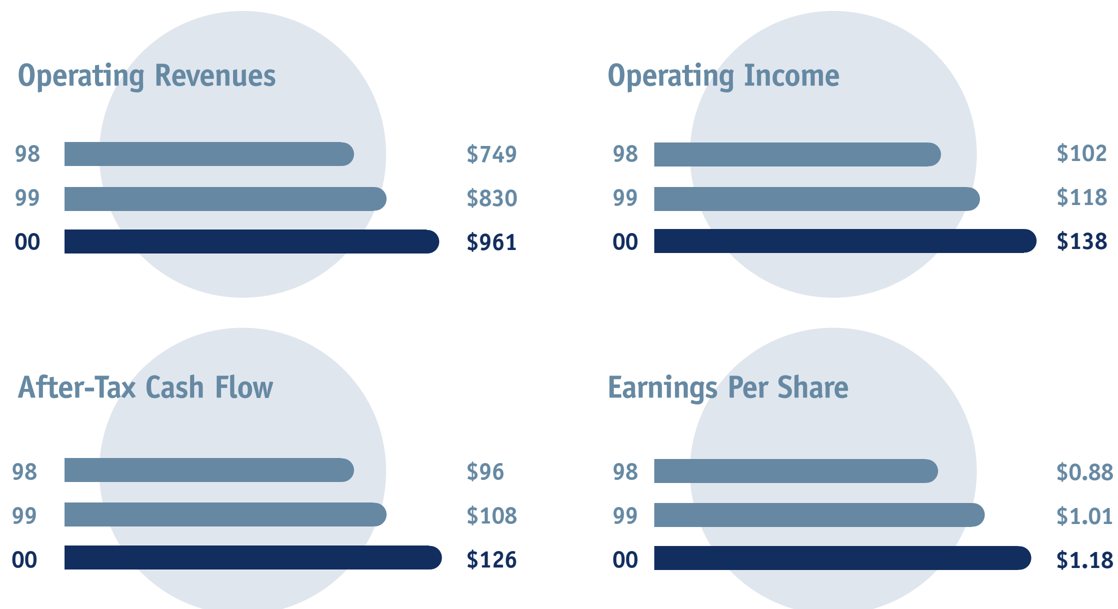
Our CRM efforts are closely aligned with our **Marketing Services** solutions — developing marketing plans that meet the specific needs of each client and providing customized services. Our people offer program planning and management, and the execution of integrated marketing programs via mail, telephone and the Internet.

Shopper Publications

Harte-Hanks Shopper publications are delivered to nearly 10 million households each week in California and Southern Florida. Zoned into more than 800 separate editions, these publications offer advertisers a targeted, cost-effective local advertising system, with virtually 100% penetration in their areas of distribution.

Financial Highlights

(in millions, except per share amounts)



Company Profile

Harte-Hanks makes it happen

Based in San Antonio, Texas, and with facilities around the world, Harte-Hanks is a direct and interactive services company that provides end-to-end CRM and related solutions for businesses and organizations in both consumer and business-to-business markets.

Harte-Hanks Direct Marketing has the tools to capture, analyze and disseminate business-to-business and business-to-consumer data at all points of contact. Our services help clients identify and reach their best customers and prospects — and direct them to contact centers, retail locations and Web sites, while gaining knowledge about them in the process.

Our client base is comprised of many Fortune 1,000 companies — some of the most recognizable names in retail, financial services, high-tech, pharmaceuticals, telecommunications and healthcare.

Harte-Hanks also owns and operates shopper publications that target households based on geography, reaching nearly 10 million households in California and Southern Florida each week.

Financial Highlights (in thousands, except per share amounts)	2000	1999	1998
Operating revenues	$960,773	$829,752	$748,546
Operating income	138,221	118,228	101,958
Depreciation	28,494	24,126	21,087
Goodwill and intangible amortization	15,226	10,662	7,890
Operating cash flow (operating income plus depreciation and goodwill amortization)	181,941	153,016	130,935
After-tax cash flow (net income plus depreciation and goodwill amortization)	125,606	107,729	96,036
Interest expense	1,678	349	193
Income before non-recurring items	81,886	72,941	67,059
Earnings per share	1.18	1.01	0.88
Capital expenditures	36,465	28,928	24,443
Average common and common equivalent shares outstanding (diluted)	69,653	72,144	76,057

Highlights above exclude 1998 pension curtailment gain. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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IS ALL ABOUT SOLUTIONS...

Gathering information, building partnerships and better serving our clients

As we settle into a new century, technology continues to revolutionize the way we live and the way we work. From a business standpoint, technology enables a company to communicate with and serve clients in many different ways.

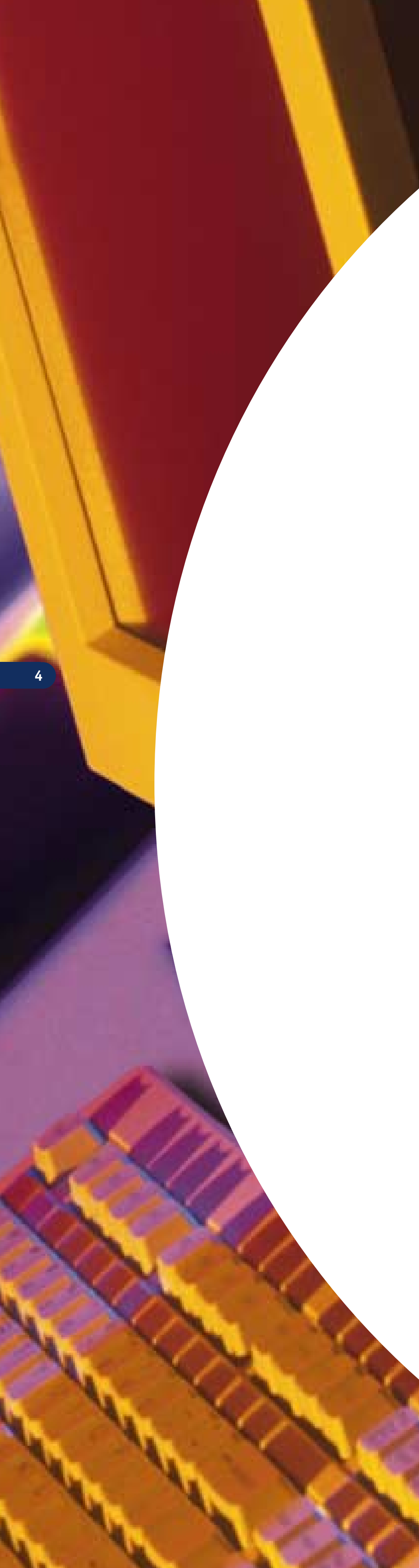
But do we control technology — or does technology control us?

At Harte-Hanks, our approach has always centered on serving our clients with interactive and technologically-driven solutions. Our success is built on the industry-specific expertise of our people and our ability to harness technology and use it as a tool to develop customized solutions to accomplish the goals of our clients.

While many companies are only now recognizing the possibilities of **customer relationship management (CRM)**, we've been building solutions based on this concept for more than 25 years, identifying and reaching the most desirable customers through faster and more flexible approaches. With a deep understanding of the markets we serve, and people who understand both the technology and its applications, we continue to explore purchase patterns, channel preference and the best growth opportunities for our clients.

With an eye toward exceeding our clients' expectations, we've realigned our organization. **CRM** brings together the CRM/Response Management and CRM/Database groups, and a **Technology Services** group has been created to ensure a focus on a more standardized approach to information technology throughout the company. This structure allows us to provide a more complete and integrated set of solutions.

At Harte-Hanks, we're excited about the future and the promise it holds. As the marketplace continues to evolve, Harte-Hanks will remain a leader, partnering with clients in a wide range of industry groups and providing them with technology-based solutions that help them keep customers — and find not just new customers, but the best customers.



To Our Shareholders

CRM — or customer relationship management — is something we heard a lot about in 2000.

While nearly everyone in business believes CRM is important, many companies are having a hard time making it work. In fact, we conducted a study in 2000 among 448 companies selected from our Market Intelligence database and learned that 83% of these companies do not yet have a CRM solution in place.

And although there are many different definitions of CRM, these definitions often leave out an important element — execution. Yet this is where we shine, it is our “sweet spot” and it is a value added benefit we offer — because at Harte-Hanks, “we make it happen!”

In the direct marketing area, where we’ve recently organized into two operational groups — CRM and Marketing Services — “making it happen” is our worldwide go-to-market strategy. With a solid technology services foundation and people who truly understand the business of our clients, we offer customized, results-oriented solutions.

“Making it happen” in our Shoppers group means using technology, a robust sales organization and a strong readership product that helps local and regional advertisers deliver targeted messages to customers and prospects.

Across Harte-Hanks, we believe an important part of making it happen for clients is seamlessly integrating all touch points. We continue to integrate the telephone medium with mail — and today we are successfully expanding our integration efforts to include the Internet. Yes, all are viable stand-alone media, but each works best when integrated with others.

What’s more, we have expanded our channel development and alliance network to deliver the best direct marketing solutions for each client — and often these solutions are quite different. In order to satisfy the needs of our clients, we combine software from our partners with our own, add our customer care and database building products and processes and draw on our understanding of relevant solutions in various vertical markets.

In other words, we make it happen with best-of-breed solutions: Web design to e-care, desktop database products to systems integration, traditional to on-demand print, direct mail to e-mail, data quality software to hosting solutions, graphics to full direct agency services, traditional to electronic fulfillment. Plus, our customer-centric model allows us to be an overall solution provider for clients who need to drive traffic to a contact center, Web site or brick-and-mortar location.

We truly believe — and have for some time — that blending and integrating all touch points is the right business model for a services company. While our work remains mostly centered on traditional approaches, our ability to offer and integrate e-capabilities helps us win new business. Not only do customers realize the importance of this new channel, they are confident in our ability to “make it happen” for them.

We also believe that it is people who make things happen. In 2000 we promoted Gary Skidmore and Charles Dall’Acqua to senior vice presidents, leading the CRM and Marketing Services operational groups respectively. Craig Combest was also promoted to senior vice president, taking on the increased responsibility for sales in all vertical markets.

Also promoted to vice president were Bob Brown, Kathy Calta, Jim Davis, Bill Goldberg, Spencer Joyner and Tann Tueller. This organizational realignment recognizes the contribution these people have made to Harte-Hanks for many years and represents the next evolution of management structure that supports the aggressive execution of our direct and interactive marketing strategy.

In 1999 we acquired Market Intelligence, and in 2000 we complemented this strategic business-to-business database compiler with the acquisition of IRG. In 2001 we will combine the two capabilities and offer a range of niche products in addition to an even more robust high-tech database.

Larry Franklin
Chairman and Chief Executive Officer

Richard M. Hochhauser (left)
President and Chief Operating Officer

Our worldwide presence was expanded with the opening of a 62,000 square foot facility in Hasselt, Belgium, and the acquisition of Hi-Tech Marketing in the United Kingdom. We also compiled a Latin American high-tech database.

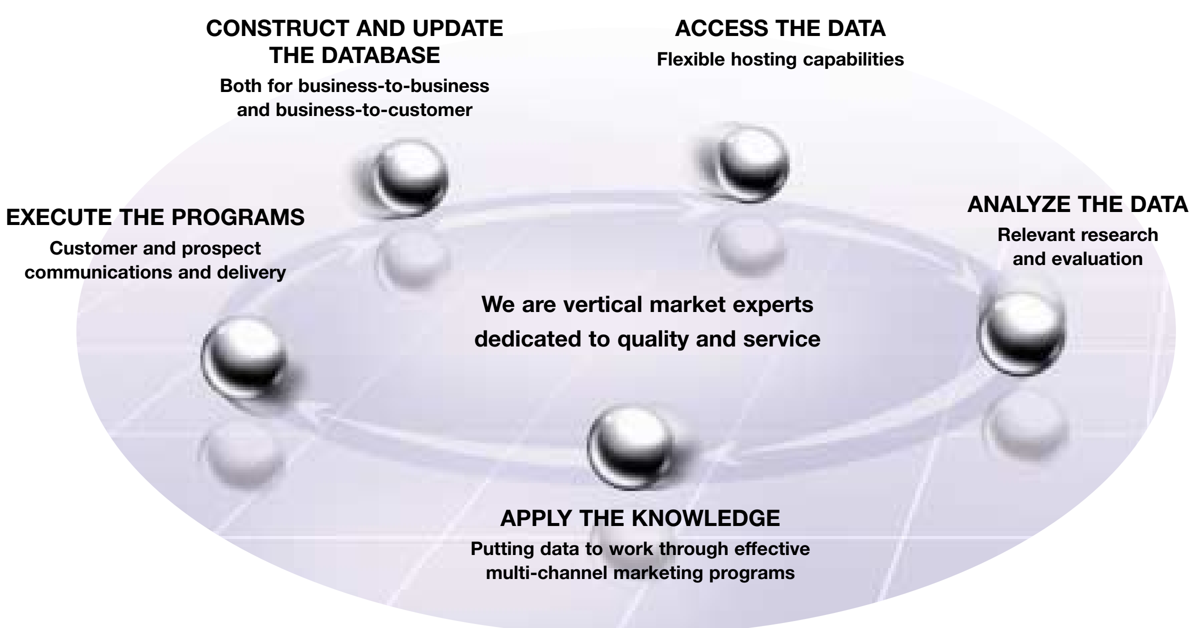
Once again we had good financial performance. Diluted earnings per share were up 16.8% to $1.18 on a revenue increase of 15.8% to $960.8 million. Even with some softness in retail, our direct marketing business extended its streak to 11 consecutive years of good growth — revenue was up 18.4% while operating cash flow increased 20.1%. Shoppers had another terrific year with revenue up 10.4% and operating cash flow increasing by 15.7%. We added 300,000 of additional Shopper circulation through internal circulation growth.

During 2000 we repurchased 3.9 million shares of our own stock under the repurchase program first authorized in January 1997. Since inception, we have repurchased 14 million shares and have 4.6 million shares remaining under authorization at the end of 2000.

Looking ahead. While the general softening of the economy in the second half of 2000 is continuing into the start of 2001, we are enthusiastic about our business and the industries in which we work. And we remain excited about our company's position as a leader in both direct and interactive marketing and Shoppers. Our ability to deliver end-to-end solutions that help our clients target their best customers and prospects is even more valuable during times of economic uncertainty.

As we consider the future, there are many reasons to be proud. Our strong CRM capabilities. Our continuing history as a high-quality service provider. Our financial strength and the investments we continue to make in our people. Our ability to provide solutions for our clients. These are the things that make us confident that 2001 will be another successful year.

We understand that we are constantly measured — by our customers, our shareholders and our own people. We will continue to make it happen for all of you.



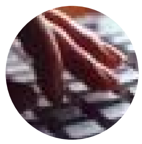
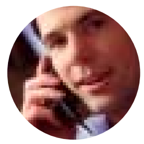
How we make it happen for our customers

During the past 25 years, technology has evolved to provide true one-to-one marketing to customers — the basis of CRM. And Harte-Hanks has the worldwide direct and interactive CRM and marketing services capabilities to provide complete end-to-end solutions.

Making it happen takes more than just a software application. Our people offer much more than a set of capabilities — we provide guidance and insight to help clients focus on the possibilities that hold the greatest potential.

From brick-and-mortar to "dot-coms," from e-channels to traditional channels, we know the unique CRM challenges our clients face in their respective industries. We've made the investment in many products and services over the years, and we've also developed staff who are experts. Not only do we understand direct mail, e-marketing and telemarketing channels, we are CRM focused, we understand the business of direct and interactive marketing, and we are industry experts.

WE MAKE it HAPPEN


Comprehensive, reliable database services

Our professional services team, which has expertise in the design, construction and support of marketing databases, continues to help our clients successfully compete in their respective marketplaces. In addition to database hosting, Harte-Hanks maintains a full suite of data production and enhancement solutions. Service bureau processing includes preparing data feeds, developing and maintaining a customer database, preparing marketing lists and files, and accessing and understanding data.

Best-of-breed software and services

We've developed some of the most advanced e-care, e-marketing and traditional response management programs in business today. With ***n*****Touch Quick Reply**, clients can automate their e-mail response systems, enabling quick and personal response to high-volume customer e-mail. ***n*****Touch CommCenter** enhances clients' Web sites by incorporating a searchable knowledge base that customers can access anytime, with real-time chat, live operator services and e-mail support.

In addition, our campaign management systems enable clients to view the status of programs, assign tasks to Harte-Hanks program managers and generate reports for program analysis all via the Web.

Our proprietary **Trillium**™ software provides industrial-strength data cleansing, conversion and reengineering capabilities for valuable data — allowing accurate, standardized and consolidated views of legacy, operational and customer data. Trillium was rated the leader for excellence, quality and overall value to the enterprise, winning a *DM Review* Reader's Award for 2000.

Our **Allink**™ solution set, which includes best-of-breed partner products as well as Harte-Hanks **Trillium**™, **Relationship Builder**™ and **Agent**™, delivers end-to-end database solutions.

A new acquisition, a stronger offering

To further enhance our database offering, Harte-Hanks acquired Information Resource Group (IRG) in November 2000. IRG develops databases and related solutions that provide information on buyers and suppliers of technology products and services. These capabilities complement the database products and solutions currently offered to technology and communications organizations by Market Intelligence, which Harte-Hanks acquired in 1999. The end result is a powerful database offering that provides clients and prospects with even more technology-related intelligence on more businesses to enhance their sales, marketing and research initiatives.

Direct Marketing — Marketing Services

How we make it happen for our customers

With more than 20 years experience executing large- and medium-scale projects and programs, we have specialized implementation teams for each of the vertical industries we serve.

That means our people are at home in a wide variety of work environments, fulfilling marketing needs including campaign planning and management, customer acquisition programs, loyalty programs, customer retention programs, privacy initiatives, merger and acquisition communications, strategic planning, customer care and customized solutions.

What's more, we deliver it all: proprietary systems, resources, locations, expertise, capacity, experience and volume. We create, produce and mail promotional pieces; we make and take customer and prospect telemarketing calls; we build Web sites and create and receive e-mail; and we are one of the largest and most-focused providers in each of these areas. We offer fulfillment both electronically and traditionally. We do more than execute these functions — we own them.

Direct Marketing Agency Services

We offer full-service direct marketing agency services that combine information-based strategy and brand-building creative across traditional and interactive media.

Personalized Mail and Logistics

As one of the largest mailers in the United States, we have the experience to handle direct mail jobs of any size. Services include state-of-the-art printing, laser customization, mail engineering processes, logistics services and mail tracking.

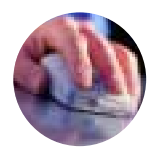
Fulfillment Services

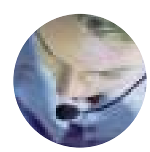
Fulfillment services go beyond traditional services and include print-on-demand, Web-based inventory management and order processing tools, on-demand marketing and e-fulfillment.

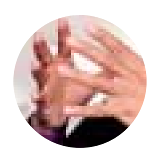
Telemarketing

Our inbound and outbound telemarketing services ensure the lines of communication stay open between clients and their customers. Contact centers are staffed by teleservicing experts with experience in results-oriented customer acquisition, retention programs and partner support programs.

WE MAKE it HAPPEN







Shopper Publications

How we make it happen for our customers

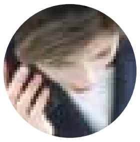
The Harte-Hanks Shoppers forge a vital link between buyers and sellers of goods and services. In 2000 we expanded the reach and geographic boundaries of our Shopper publications by over 300,000 households. Zoned into more than 800 separate editions, Shoppers reach nearly 10 million households in California and South Florida.

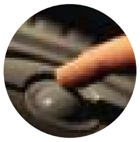
In California, Harte-Hanks Shoppers reach over 70% of the households in the state every week with the *PennySaver* publication. In South Florida, Miami and Fort Lauderdale, area residents shop with *The Flyer*. These publications are delivered by mail, free of charge to readers.

Over 2,000 combinations of geographic and demographic coverage allow for extensive targeting. Single-location, local advertisers can saturate a specific geographic zone, while multiple-location advertisers can saturate multiple zones. Further targeting helps advertisers connect with customers based on lifestyles, behavior and language.

Advertisers benefit from a selection of cost-effective advertising products and services, including pre-printed inserts, print and deliver flyers, detached cards, rack products, VIP card and MARQUEE™, as well as traditional classified, display and in-column ads and Web-based products.

WE MAKE it HAPPEN





We make it happen in our minds, in our hearts and for our clients

At Harte-Hanks, our solutions are securely supported by an extremely valuable resource: our people. We understand the technology, we recognize marketing opportunities and we know the business areas in which our clients compete. We also share a commitment to excellence and a strong desire not only to meet client expectations, but to exceed them. That's why it's no surprise that when a client calls, ***we make it happen***.

Financial Contents

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

Overview

The Company's overall performance reflects its commitment to its growth strategy of being a market leader in the targeted media industry, introducing new products and entering new markets, investing in technology and people, and increasing shareholder value. Harte-Hanks now operates as an international direct and interactive marketing services company that provides end-to-end CRM and related solutions to a wide range of industries serving both consumer and business-to-business markets. The Company also publishes highly targeted advertising shopper publications which reach nearly 10 million households each week. Since December 31, 1998, Harte-Hanks has grown revenues 29.2% and operating income 35.2%, excluding the results of operations sold by the Company during that time.

Harte-Hanks has grown internally by adding new customers and products, cross-selling existing products, entering new markets and expanding its international presence. The Company also used proceeds from the sales of its newspaper and television operations and its excess cash flows to fund several acquisitions in 1998, 1999 and 2000. These acquisitions, as well as several previous acquisitions, have enhanced the Company's growth over the past three years. Harte-Hanks has funded $240.4 million in acquisitions during the period 1998 through 2000. These acquisitions have all been in the Company's direct and interactive marketing segment, which now comprises 69% of the Company's revenues.

Harte-Hanks derives the majority of its revenues from the sale of direct and interactive marketing and advertising services. As a national business, direct and interactive marketing is affected by general national economic trends. The Company's shoppers operate in local markets and are affected by the strength of the local economies. The Company's principal expense items are payroll, postage, transportation and paper.

Results of Operations

Operating results were as follows:

In thousands	2000	% Change	1999	% Change	1998
Revenues	$ 960,773	15.8	$ 829,752	10.8	$ 748,546
Operating expenses	822,552	15.6	711,524	10.0	646,588
Operating income	$ 138,221	16.9	$ 118,228	16.0	$ 101,958

Consolidated revenues grew 15.8% to $960.8 million and operating income grew 16.9% to $138.2 million in 2000 compared to 1999. The Company's overall growth resulted from acquisitions, increased business with both new and existing customers and from the sale of new products and services. Overall operating expenses increased 15.6% to $822.6 million as a result of the acquisitions and overall revenue growth.

Overall growth in the Company's 1999 revenues and operating income resulted from acquisitions and increased business from both new and existing customers. Overall operating expenses increased as a result of the overall revenue growth, including the acquisitions, and the hiring of additional personnel to support the growth.

Direct Marketing

Direct marketing operating results were as follows:

In thousands	2000	% Change	1999	% Change	1998
Revenues	$ 662,044	18.4	$ 559,262	13.2	$ 493,898
Operating expenses	570,594	18.8	480,098	13.2	424,250
Operating income	$ 91,450	15.5	$ 79,164	13.7	$ 69,648

Direct and interactive marketing revenues increased $102.8 million, or 18.4%, in 2000 compared to 1999. CRM experienced significant revenue growth in 2000 due to increased data processing, Internet and fulfillment business with both new and existing customers. Also contributing to the CRM revenue growth was the October 1999 acquisition of ZD Market Intelligence, renamed Harte-Hanks Market Intelligence, and to a much lesser extent the November 2000 acquisition of Information Resource Group and the June 2000 acquisition of Hi-Tech Marketing Limited. The traditional growth oriented business-to-business activities of CRM had significant growth. The high-tech, mutual fund, non-bank finance, telecommunications and healthcare industry sectors contributed significantly to overall CRM revenue growth, offsetting slowdowns in the insurance industry. Marketing Services also experienced good revenue growth in 2000, led by its targeted mail operations. Marketing Services revenues increased due to increased product sales to both new and existing customers, primarily in the non-bank finance, banking and pharmaceutical industry sectors, offsetting slowdowns in the retail industry. The May 1999 acquisition of Direct Marketing Associates, Inc. also contributed to the Marketing Services revenue growth. Overall, revenue growth for direct and interactive marketing increased as a result of increased business with both new and existing customers across several industry sectors including high-tech, non-bank finance, mutual fund, healthcare, banking, telecommunications and pharmaceutical, as well as the acquisitions noted above.

Operating expenses rose $90.5 million, or 18.8%, in 2000 compared to 1999 due primarily to revenue growth contributed by acquisitions, which accounted for approximately 58% of this increase. Excluding these acquisitions, operating expenses increased 8.3%. This remaining increase was due to increased production costs directly associated with increased product volumes, increased payroll costs due to expanded hiring to support revenue growth and increased general and administrative expense from professional and business service fees and employee expenses. Depreciation and amortization expense increased $8.8 million due to goodwill associated with acquisitions and higher levels of capital investment to support growth.

Direct and interactive marketing revenues increased $65.4 million, or 13.2%, in 1999 compared to 1998. CRM and Marketing Services both experienced significant revenue growth in 1999. CRM revenues increased due to increased Internet, consulting, data processing and fulfillment business with both new and existing customers, the October 1999 acquisition of ZD Market Intelligence, renamed Harte-Hanks Market Intelligence, and to a lesser extent the August 1998 acquisition of Cornerstone Integrated Services. The traditional growth oriented business-to-business activities of CRM had significant growth during the year. The high-tech, non-bank finance, retail and mutual fund industry sectors contributed significantly to overall CRM revenue growth. This growth was partially offset by softness in the healthcare, managed care, business services and publishing industries as well as revenue declines in the outbound credit card business. Marketing Services revenues, led by its targeted mail and logistics operations, increased due to increased product sales, including sales of new products, to new and existing customers, primarily in the retail, government/not-for-profit, and non-bank finance industry sectors. The November 1998 acquisition of Printing Management Systems, Inc. and the May 1999 acquisition of Direct Marketing Associates, Inc. also contributed to the Marketing Services revenue growth. Overall, revenue growth for direct and interactive marketing increased as a result of increased business with both new and existing customers across several industry sectors including retail, financial services, high-tech, pharmaceutical, automotive and telecommunications industries, as well as the acquisitions noted above.

Operating expenses rose $55.8 million, or 13.2%, in 1999 compared to 1998 due primarily to revenue growth contributed by acquisitions, which accounted for $43.0 million of the increase. Excluding these acquisitions, operating expenses increased 3.1%. This remaining increase was due to increased production costs directly associated with the increased product volumes, increased payroll costs due to expanded hiring to support revenue growth and increased general and administrative expense from professional and outside service fees. Depreciation and amortization expense increased $5.7 million due to goodwill associated with acquisitions and higher levels of capital investment to support growth.

Shoppers

Shopper operating results were as follows:

In thousands	2000	% Change	1999	% Change	1998
Revenues	$ 298,729	10.4	$ 270,490	6.2	$ 254,648
Operating expenses	243,019	8.7	223,475	4.4	214,141
Operating income	$ 55,710	18.5	$ 47,015	16.1	$ 40,507

Shopper revenues increased $28.2 million, or 10.4%, in 2000 when compared to 1999. Revenue increases were the result of improved sales in established markets as well as geographic expansions into new neighborhoods in both California and Florida. On a product basis, revenues increased due to growth in in-book products, primarily employment and automotive related advertising and core sales, and distribution products, primarily pre-printed inserts and four-color glossy flyers. Shoppers also experienced growth from up-selling ads onto its Web site.

Shopper operating expenses rose $19.5 million, or 8.7%, in 2000 compared to 1999. The increase in operating expenses was primarily due to increases in labor costs of $6.5 million and additional production costs of $8.8 million, including increased postage of $5.3 million due to increased circulation and insert volume growth.

Shopper revenues increased $15.8 million, or 6.2%, in 1999 when compared to 1998. Excluding the effects of the sale of the Dallas-Fort Worth Shoppers Guide and the Wichita, Kansas and Springfield, Missouri PennyPower in May 1998, revenues increased $20.7 million, or 8.3%. Revenue increases were the result of improved sales in established markets as well as geographic expansions into new neighborhoods in both Northern and Southern California. On a product basis, revenues increased due to growth in in-book products, primarily employment and core sales, and distribution products, primarily four-color glossy flyers and pre-printed inserts. These increases were partially offset by declining revenues in the personals advertising segment.

Shopper operating expenses rose $9.3 million, or 4.4%, in 1999 compared to 1998. Excluding the divestiture mentioned above, the increase in operating expenses was primarily due to increases in labor costs of $4.8 million and additional production costs of $6.9 million, including increased postage of $4.0 million due to increased circulation and insert volume growth.

Acquisitions/Divestitures

As described in Note B of the "Notes to Consolidated Financial Statements" included herein, the Company made several acquisitions in the past three years.

The Company acquired Detroit-based Information Resource Group, a leading provider of business-to-business intelligence solutions to the high-tech, telecommunications and other industries in November 2000 and Hi-Tech Marketing Limited, a London based leading pan-European provider of CRM services to the high-tech, telecommunications and financial services industries in June 2000.

In October 1999, the Company acquired ZD Market Intelligence, renamed Harte-Hanks Market Intelligence, for $101 million in cash from Ziff-Davis, Inc. Harte-Hanks Market Intelligence is a leading provider of database products and solutions to the high-tech and telecommunications industries in the United States, Canada and Europe.

The Company acquired Direct Marketing Associates, Inc. of Baltimore, Maryland, a leading provider of integrated direct marketing services to commercial, government and non-profit organizations in May 1999 and LYNQS Newmedia of Kansas City, Missouri, a developer of new media applications for the financial services, pharmaceutical and other industries in June 1999.

The Company acquired Cornerstone Integrated Services of Austin, Texas, a leading provider of technical and marketing support services to major computer hardware and software manufacturers, as well as other manufacturers in the high-tech industry in August 1998; Printing Management Systems, Inc. of Bellmawr, New Jersey, a leading provider of direct marketing services geared to addressing clients' needs in database marketing, inventory control, information processing, fulfillment and direct mail in November 1998; and Spectral Resources, Inc. of Woodstock, New York, a leading provider of interactive solutions to the pharmaceutical industry in December 1998.

The Company sold three of its smallest shopper publications, located in Dallas, Texas, Wichita, Kansas and Springfield, Missouri, in May 1998.

Interest Expense/Interest Income

Interest expense increased $1.3 million in 2000 over 1999 due primarily to interest, commitment charges and the amortization of financing costs associated with the Company's two unsecured revolving credit facilities. Interest relating to the Company's unsecured credit facility obtained for the purpose of constructing a new building in Belgium to expand and support the Company's CRM operations, and a note payable issued in connection with the Company's June 2000 acquisition of Hi-Tech Marketing Limited also contributed to the increase in interest expense. Total interest expense increased in 1999 when compared to 1998 primarily due to interest and commitment charges from the two unsecured revolving credit facilities the Company obtained in November 1999. The Company's debt at December 31, 2000 and 1999 is described in Note D of the "Notes to Consolidated Financial Statements" included herein.

Interest income decreased $3.6 million in 2000 over 1999 due to the sale of all of the Company's short-term investments during 1999, the proceeds of which were used to fund acquisitions and repurchase the Company's stock, and lower overall cash balances. Interest income decreased $7.8 million in 1999 over 1998 for the same reasons.

Pension Curtailment Gain

The Company recognized a pension curtailment gain of $2.15 million and related income tax expense of $0.8 million in 1998. This non-recurring gain resulted from the freezing of benefits under its defined benefit plan. (See Note F of the "Notes to Consolidated Financial Statements" included herein.) Excluding the non-recurring gain and related tax, net income was $67.1 million for the year ended December 31, 1998.

Income Taxes

Income taxes increased $5.1 million in 2000 due to higher income levels. Excluding income taxes related to the 1998 pension curtailment gain, income taxes increased $2.9 million in 1999 due to higher income levels. The effective income tax rate (excluding the unusual item) was 40.2%, 40.6% and 41.2% in 2000, 1999 and 1998, respectively.

Capital Investments

Net cash used in investing activities for 2000 included $43.9 million for acquisitions and $36.5 million for capital expenditures. The acquisition investments were made in the direct and interactive marketing segment, discussed under "Direct Marketing." The capital expenditures consisted primarily of the construction of a new building to expand and support the Company's CRM operations in Belgium, additional computer capacity, technology, systems and equipment upgrades for the direct and interactive marketing segment to support its growth in all sectors. The Company also invested in facility expansions in its CRM and Marketing Services sectors. The shopper segment's capital expenditures were primarily related to new press, computer and other production equipment.

Net cash used in investing activities for 1999 included $136.5 million for acquisitions and $28.9 million for capital expenditures. The acquisition investments were made in the direct and interactive marketing segment, discussed under "Direct Marketing." In addition, the Company made equity investments totaling $4.0 million in three companies in order to further strengthen its CRM capabilities. The capital expenditures consisted primarily of additional computer capacity, technology, systems and equipment upgrades for the direct and interactive segment to support its growth in all sectors. The Company also invested in facility expansions in its CRM and Marketing Services sectors. The shopper segment's capital expenditures were primarily related to the Northern California operations consolidation, replacement of Southern California's order entry and related accounting applications and new press and computer equipment. Additionally, the Company continued with its implementation of new accounting systems software begun in December 1997.

Liquidity and Capital Resources

Cash provided by operating activities for 2000 was $110.9 million. Net cash outflows from investing activities were $79.5 million for 2000, resulting primarily from the acquisitions and capital investments described above. Net cash outflows from financing activities in 2000 were $43.7 million. The cash outflow from financing activities is attributable primarily to the repurchase of treasury stock throughout 2000 totaling $92.7 million. The acquisitions and repurchases of treasury stock in 2000 were funded through the Company's cash flows and borrowings under the Company's credit facilities.

Cash provided by operating activities for 1999 was $115.4 million. Net cash outflows from investing activities were $29.6 million for 1999, resulting primarily from the acquisitions described above and funded by the sale and maturity of short-term investments. Net cash outflows from financing activities in 1999 were $81.0 million. The cash outflow from financing activities is attributable primarily to the repurchase of treasury stock throughout 1999 totaling $87.6 million.

Capital resources are available from, and provided through, the Company's two unsecured credit facilities. These credit facilities, two $100 million variable rate, revolving loan commitments, were put in place on November 4, 1999. All borrowings under the $100 million revolving Three-Year Credit Agreement are to be repaid by November 4, 2002. On November 2, 2000 the Company was granted a 364-day extension to its $100 million revolving 364-Day Credit Agreement. All borrowings under the $100 million revolving 364-Day Credit Agreement are to be repaid by November 1, 2001.

Management believes that its credit facilities, together with cash provided by operating activities, will be sufficient to fund operations and anticipated acquisitions and capital expenditures needs for the foreseeable future. As of December 31, 2000, the Company had $145.0 million of unused borrowing capacity under its credit facilities.

Factors That May Affect Future Results and Financial Condition

From time to time, in both written reports and oral statements by senior management, the Company may express its expectations regarding its future performance. These "forward-looking statements" are inherently uncertain, and investors should realize that events could turn out to be other than what senior management expected. Set forth below are some key factors which could affect the Company's future performance.

***Legislation* —** There could be a material adverse impact on the Company's direct and interactive marketing business due to the enactment of legislation or industry regulations arising from public concern over consumer privacy issues. Restrictions or prohibitions could be placed upon the collection and use of information that is currently legally available.

***Data Suppliers* —** There could be a material adverse impact on the Company's direct and interactive marketing business if owners of the data the Company uses were to withdraw the data. Data providers could withdraw their data if there is a competitive reason to do so or if legislation is passed restricting the use of the data.

***Acquisitions* —** In recent years the Company has made a number of acquisitions in its direct and interactive marketing segment, and it expects to pursue additional acquisition opportunities. Acquisition activities, even if not consummated, require substantial amounts of management time and can distract from normal operations. In addition, there can be no assurance that the synergies and other objectives sought in acquisitions will be achieved.

Competition — Direct and interactive marketing is a rapidly evolving business, subject to periodic technological advancements, high turnover of customer personnel who make buying decisions, and changing customer needs and preferences. Consequently, the Company's direct and interactive marketing business faces competition in both of its sectors — CRM and Marketing Services. The Company's shopper 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 and cable television, shoppers and other communications media that operate in the Company's markets. The extent and nature of such competition is, 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 the Company's current processes and to develop new products and services could result in loss of the Company's customers to current or future competitors. In addition, failure to gain market acceptance of new products and services could adversely affect the Company's growth.

Qualified Personnel — The Company believes that its future prospects will depend, in large part, upon its ability to attract, train and retain highly skilled technical, client services and administrative personnel. Qualified personnel are in great demand and are likely to remain a limited resource for the foreseeable future.

Postal Rates — The Company's shoppers are delivered by standard mail, and postage is the second largest expense, behind payroll, in the Company's shopper business. Overall postal rates, which typically increase every 3 to 4 years, increased in January 1999. Shopper postal costs were relatively unaffected by this increase as base rates remained flat and overweight rates changed very little. Postal rates again increased in January 2001. Overall shopper postage costs are expected to grow moderately as a result of this increase as well as anticipated increases in circulation and insert volumes. Postal rates also influence the demand for the Company's direct and interactive marketing services even though the cost of mailings is borne by the Company's customers and is not directly reflected in the Company's revenues or expenses.

Paper Prices — Paper represents a substantial expense in the Company's shopper operations. Paper prices increased slightly at the beginning of 1998, but leveled out toward the end of 1998. The Company benefited from decreasing paper prices throughout 1999, although prices increased in the fourth quarter. Paper prices continued to increase throughout 2000. Fluctuations in paper prices, such as those experienced in recent years, can materially affect the results of the Company's operations.

Economic Conditions — Changes in national economic conditions can affect levels of advertising expenditures generally, and such changes can affect each of the Company's businesses. Revenues from the Company's shopper business are dependent to a large extent 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 and interactive marketing revenues are dependent on national and international economics.

Harte-Hanks, Inc. and Subsidiaries Consolidated Balance Sheets

December 31,

In thousands, except per share and share amounts	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents	$ 22,928	$ 35,196
Accounts receivable *(less allowance for doubtful accounts of $4,644 in 2000 and $3,751 in 1999)*	179,838	154,030
Inventory	6,260	7,099
Prepaid expenses	14,072	12,651
Current deferred income tax asset	7,648	6,848
Other current assets	5,127	4,309
Total current assets	235,873	220,133
Property, plant and equipment		
Land	3,428	3,302
Buildings and improvements	28,374	23,863
Software	34,966	22,736
Equipment and furniture	171,560	163,848
	238,328	213,749
Less accumulated depreciation	(130,544)	(113,376)
	107,784	100,373
Construction and equipment installations in progress	4,281	5,877
Net property, plant and equipment	112,065	106,250
Intangible and other assets		
Goodwill and other intangibles *(less accumulated amortization of $66,344 in 2000 and $51,118 in 1999)*	439,148	409,791
Other assets	20,019	33,253
Total intangible and other assets	459,167	443,044
Total assets	$ 807,105	$ 769,427
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 60,069	$ 64,812
Accrued payroll and related expenses	31,429	25,511
Customer deposits and unearned revenue	42,712	35,622
Income taxes payable	5,135	13,667
Other current liabilities	10,619	14,405
Total current liabilities	149,964	154,017
Long-term debt	65,370	5,000
Other long-term liabilities *(including deferred income taxes of $26,007 in 2000 and $20,180 in 1999)*	40,768	32,792
Total liabilities	256,102	191,809
Stockholders' equity		
Common stock, $1 par value, authorized 250,000,000 shares Issued 2000: 76,916,339; 1999: 76,392,063 shares	76,916	76,392
Additional paid-in capital	202,222	197,454
Accumulated other comprehensive income (loss)	(2,105)	12,316
Retained earnings	568,512	493,362
	845,545	779,524
Less treasury stock, 2000: 12,230,388; 1999: 8,285,966 shares at cost	(294,542)	(201,906)
Total stockholders' equity	551,003	577,618
Total liabilities and stockholders' equity	$ 807,105	$ 769,427

See Notes to Consolidated Financial Statements

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

Year Ended December 31,

In thousands, except per share amounts	2000	1999	1998
Revenues	$ 960,773	$ 829,752	$ 748,546
Operating expenses			
Payroll	350,058	300,336	268,957
Production and distribution	336,444	306,340	284,572
Advertising, selling, general and administrative	92,330	70,060	64,082
Depreciation	28,494	24,126	21,087
Goodwill and intangible amortization	15,226	10,662	7,890
	822,552	711,524	646,588
Operating income	138,221	118,228	101,958
Other expenses (income)			
Interest expense	1,678	349	193
Interest income	(2,062)	(5,662)	(13,474)
Other, net	1,746	730	1,230
Pension curtailment gain	–	–	(2,150)
	1,362	(4,583)	(14,201)
Income before income taxes	136,859	122,811	116,159
Income tax expense	54,973	49,870	47,788
Net income	$ 81,886	$ 72,941	$ 68,371
Basic earnings per common share	$ 1.21	$ 1.04	$ 0.94
Weighted-average common shares outstanding	67,517	69,914	72,716
Diluted earnings per common share	$ 1.18	$ 1.01	$ 0.90
Weighted-average common and common equivalent shares outstanding	69,653	72,144	76,057

See Notes to Consolidated Financial Statements

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

Year Ended December 31,

In thousands	2000	1999	1998
Cash Flows from Operating Activities			
Net income	$ 81,886	$ 72,941	$ 68,371
Adjustments to reconcile net income to net cash provided by continuing operations:			
Depreciation	28,494	24,126	21,087
Goodwill and intangible amortization	15,226	10,662	7,890
Amortization of option-related compensation	441	430	592
Deferred income taxes	5,942	10,572	4,130
Pension curtailment gain	–	–	(2,150)
Other, net	424	224	534
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures:			
Increase in accounts receivable, net	(22,514)	(13,827)	(12,415)
(Increase) decrease in inventory	839	(848)	900
Increase in prepaid expenses and other current assets	(1,848)	(2,058)	(2,549)
Increase (decrease) in accounts payable	1,451	5,597	(2,206)
Increase in other accrued expenses and other liabilities	5,095	10,826	10,034
Other, net	(4,511)	(3,281)	1,210
Net cash provided by continuing operations	110,925	115,364	95,428
Net cash used in discontinued operating activities	–	–	(265,650)
Net cash provided by (used in) operating activities	110,925	115,364	(170,222)
Cash Flows from Investing Activities			
Acquisitions	(43,873)	(136,469)	(47,386)
Purchases of property, plant and equipment	(36,465)	(28,928)	(24,443)
Proceeds from the sale of property, plant and equipment	432	976	1,385
Proceeds from divestiture	–	–	5,769
Net sales and maturities of available-for-sale short-term investments	–	138,874	249,840
Other investing activities	391	(4,005)	–
Net cash provided by (used in) investing activities	(79,515)	(29,552)	185,165
Cash Flows from Financing Activities			
Long-term borrowings	58,494	5,000	–
Payments on debt	(5,000)	–	–
Issuance of common stock	6,506	7,082	7,452
Issuance of treasury stock	81	87	23
Purchase of treasury stock	(92,706)	(87,574)	(71,354)
Warrants repurchased	(4,317)	–	–
Dividends paid	(6,736)	(5,578)	(4,372)
Net cash used in financing activities	(43,678)	(80,983)	(68,251)
Net increase (decrease) in cash	(12,268)	4,829	(53,308)
Cash and cash equivalents at beginning of period	35,196	30,367	83,675
Cash and cash equivalents at end of period	$ 22,928	$ 35,196	$ 30,367
Supplemental Cash Flow Information:			
Non-cash investing and financing activities:			
Acquisitions — debt issued (2000) and stock issued (1998)	$ 6,876	$ –	$ 5,752

See Notes to Consolidated Financial Statements

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

In thousands	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 1998	$ 74,843	$ 177,238	$ 362,000	$ (47,267)	$ (577)	$ 566,237
Common stock issued — employee benefit plans	218	4,018	–	–	–	4,236
Exercise of stock options	728	2,862	–	–	–	3,590
Tax benefit of options exercised	–	4,031	–	–	–	4,031
Dividends paid ($0.06 per share)	–	–	(4,372)	–	–	(4,372)
Treasury stock issued in conjunction with acquisition	–	1,545	–	4,207	–	5,752
Treasury stock issued	–	4	–	19	–	23
Treasury stock repurchase	–	–	–	(71,354)	–	(71,354)
Comprehensive income, net of tax:						
Net income	–	–	68,371	–	–	68,371
Change in unrealized gain (loss) on short-term investments, net of reclassification adjustments (net of tax of $311)	–	–	–	–	577	577
Total comprehensive income						68,948
Balance at December 31, 1998	75,789	189,698	425,999	(114,395)	–	577,091
Common stock issued — employee benefit plans	215	4,172	–	–	–	4,387
Exercise of stock options	388	2,307	–	–	–	2,695
Tax benefit of options exercised	–	1,253	–	–	–	1,253
Dividends paid ($0.08 per share)	–	–	(5,578)	–	–	(5,578)
Treasury stock issued	–	24	–	63	–	87
Treasury stock repurchase	–	–	–	(87,574)	–	(87,574)
Comprehensive income, net of tax:						
Net income	–	–	72,941	–	–	72,941
Change in unrealized gain (loss) on long-term investments, net of reclassification adjustments (net of tax of $6,632)	–	–	–	–	12,316	12,316
Total comprehensive income						85,257
Balance at December 31, 1999	76,392	197,454	493,362	(201,906)	12,316	577,618
Common stock issued — employee benefit plans	**196**	**3,809**	**–**	**–**	**–**	**4,005**
Exercise of stock options	**328**	**2,173**	**–**	**–**	**–**	**2,501**
Tax benefit of options exercised	**–**	**1,581**	**–**	**–**	**–**	**1,581**
Dividends paid ($0.10 per share)	**–**	**–**	**(6,736)**	**–**	**–**	**(6,736)**
Treasury stock issued	**–**	**11**	**–**	**70**	**–**	**81**
Treasury stock repurchase	**–**	**–**	**–**	**(92,706)**	**–**	**(92,706)**
Warrants repurchased (net of tax of $1,511)	**–**	**(2,806)**	**–**	**–**	**–**	**(2,806)**
Comprehensive income, net of tax:						
Net income	**–**	**–**	**81,886**	**–**	**–**	**81,886**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**	**(1,208)**	**(1,208)**
Change in unrealized gain (loss) on long-term investments, net of reclassification adjustments (net of tax of $7,115)	**–**	**–**	**–**	**–**	**(13,213)**	**(13,213)**
Total comprehensive income						**67,465**
Balance at December 31, 2000	**$ 76,916**	**$ 202,222**	**$ 568,512**	**$ (294,542)**	**$ (2,105)**	**$ 551,003**

See Notes to Consolidated Financial Statements

Note A — Significant Accounting Policies

Consolidation

The accompanying Consolidated Financial Statements present the financial position of Harte-Hanks, Inc. and subsidiaries (the "Company"). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

All intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified for comparative purposes.

Cash Equivalents and Available-for-Sale Securities

All highly liquid investments with a remaining maturity of 90 days or less at the time of purchase are considered to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value. The Company considers its investments to be available-for-sale and has recorded its investments at fair value, with the unrealized gain (loss) recognized as a component of accumulated other comprehensive income.

Inventory

Inventory, consisting primarily of newsprint and operating supplies, is stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment

Property, plant and equipment are stated on the basis of cost. Depreciation of buildings and equipment is computed generally on the straight-line method at rates calculated to amortize the cost of the assets over their useful lives. The general ranges of estimated useful lives are:

Buildings and improvements	10 to 40 years
Equipment and furniture	3 to 20 years
Software	3 to 10 years

Goodwill and Other Intangibles

Goodwill and other intangibles are stated on the basis of cost, adjusted as discussed below. Goodwill is amortized on a straight-line basis over 15 to 40 year periods. Other intangibles are amortized on a straight-line basis over a period of 5 to 10 years.

The Company assesses the recoverability of its goodwill and other intangibles by determining whether the amortization of the intangible balance over its remaining life can be recovered through projected undiscounted future cash flows over the remaining amortization period. If projected undiscounted future cash flows indicate that an unamortized intangible will not be recovered, an impairment loss is recognized based on projected discounted future cash flows. Cash flow projections are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

At December 31, 2000 and 1999 the Company's goodwill balance was $434.7 million, net of $65.7 million of accumulated amortization, and $405.9 million, net of $51.0 million of accumulated amortization, respectively.

Income Taxes

Income taxes are calculated using the asset and liability method required by Statement of Financial Accounting Standards ("SFAS") No. 109. Deferred income taxes are recognized for the tax consequences resulting from "temporary differences" by applying enacted statutory tax rates applicable to future years. These "temporary differences" are associated with differences between the financial and the tax basis of existing assets and liabilities. Under SFAS No. 109, a statutory change in tax rates will be recognized immediately in deferred taxes and income.

Earnings Per Share

Basic earnings per common share are based upon the weighted-average number of common shares outstanding. Diluted earnings per common share are based upon the weighted-average number of common shares outstanding and dilutive common stock equivalents from the assumed exercise of stock options using the treasury stock method.

Revenue Recognition

The Company recognizes revenue at the time the service is rendered or the product is delivered. Payments received in advance of the performance of services are recorded as deferred revenue until such time as the services are performed.

Direct and interactive marketing revenue from the production and delivery of data is recognized upon completion and shipment of the work. Revenue from database subscriptions is recognized ratably over the term of the subscription. Service revenue from time-and-materials services is recognized as the services are provided. Revenue from certain service contracts is recognized over the contractual period, using the percentage-of-completion method based on individual costs incurred to date compared with total estimated contract costs. In other instances, progress toward completion is based on performance milestones specified in the contract where such milestones fairly reflect progress toward contract completion.

Revenue from software is recognized in accordance with the American Institute of Certified Public Accountants' (AICPA) Statement of Position ("SOP") 97-2 "Software Revenue Recognition," as amended by SOP 98-9. SOP 97-2 generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the vendor-specific objective evidence of fair values of the respective elements. In accordance with SOP 97-2, the Company has analyzed all of the elements included in its multiple-element arrangements and determined that it has Company-specific objective evidence of fair value to allocate revenue to the license and postcontract customer support (PCS) component of its software license arrangements. The revenue allocated to software products, including time-based software licenses, is recognized 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. The revenue allocated to PCS is recognized ratably over the term of the support. Revenue allocated to professional services is recognized as the services are performed.

Shopper services are considered rendered when all printing, sorting, labeling and ancillary services have been provided and the mailing material has been received by the United States Postal Service.

Recent Accounting Pronouncement

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," issued in June 1998, establishes accounting and reporting standards for derivative instruments and hedging activities. This statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company will adopt SFAS No. 133, as amended, in the first quarter of 2001 and does not expect it to have a material effect on the Company's financial position or results of operations.

Note B — Acquisitions/Divestitures

Purchases

In November 2000, the Company acquired Detroit-based Information Resource Group, a leading provider of business-to-business intelligence solutions to the high-tech, telecommunications and other industries.

In June 2000, the Company acquired the UK based Hi-Tech Marketing Limited, a leading pan-European provider of CRM services to the high-tech, telecommunications and financial services industries.

In October 1999, the Company acquired ZD Market Intelligence, renamed Harte-Hanks Market Intelligence, for $101 million cash from Ziff-Davis, Inc. Harte-Hanks Market Intelligence is a leading provider of database products and solutions to the high-tech and telecommunications industries in the United States, Canada and Europe.

In June 1999, the Company acquired LYNQS Newmedia of Kansas City, Missouri, a developer of new media applications for the financial services, pharmaceutical and other industries.

In May 1999, the Company acquired Direct Marketing Associates, Inc. of Baltimore, Maryland, a leading provider of integrated direct marketing services to commercial, government and non-profit organizations.

In December 1998, the Company acquired Spectral Resources, Inc. of Woodstock, New York, a leading provider of interactive solutions to the pharmaceutical industry.

In November 1998, the Company acquired Printing Management Systems, Inc. of Bellmawr, New Jersey, a leading provider of direct marketing services geared to addressing clients' needs in database marketing, inventory control, information processing, fulfillment and direct mail.

In August 1998, the Company acquired Cornerstone Integrated Systems of Austin, Texas, a leading provider of technical and marketing support services to major computer hardware and software manufacturers, as well as other manufacturers in the high-tech industry.

The total cash outlay in 2000 for acquisitions was $43.9 million. In addition, the Company incurred $6.9 million in notes payable for its June 2000 acquisition. The total cash outlay in 1999 for acquisitions was $136.5 million. The total cash outlay in 1998 for acquisitions was $47.4 million. In addition, the Company issued stock with a value of $5.8 million for its November 1998 acquisition.

The operating results of the acquired companies have been included in the accompanying Consolidated Financial Statements from the date of acquisition under the purchase method of accounting.

The following table summarizes, on an unaudited pro forma basis, the estimated combined results of operations of the Company and the 2000 and 1999 acquisitions (Information Resource Group, Hi-Tech Marketing Limited, ZD Market Intelligence, LYNQS Newmedia and Direct Marketing Associates) assuming the acquisitions had taken place at the beginning of the respective year. The pro forma information includes adjustments for a reduction in interest income on cash equivalents and increased interest expense on debt used to finance the acquisitions and amortization of the intangible assets acquired. The unaudited pro forma results of operations are not necessarily indicative of the results that actually would have occurred had the acquisitions been completed at the beginning of the respective year.

In thousands except per share amounts	*For the years ended December 31,* **2000**	**1999**
Revenues	**$ 972,280**	$ 891,576
Net income	**81,530**	72,580
Diluted earnings per common share	**1.17**	1.01

Divestitures

In May 1998, the Company sold three of its smallest shopper publications, located in Dallas, Texas, Wichita, Kansas and Springfield, Missouri.

Note C — Investments

Short-Term Investments

In 1999 the Company sold all of its short-term investments and at December 31, 2000 and 1999 held no such investments.

The gross realized gains and losses on the sale of short-term available-for-sale securities were immaterial for the years ended December 31, 1999 and 1998.

Long-Term Investments

The Company made equity investments totaling $0.7 million and $4.0 in 2000 and 1999, respectively. These investments have been classified as other assets. All such investments for which fair value was readily determinable are considered to be available-for-sale and are recorded at fair value. The related unrealized gains and losses have been reported as a separate component of accumulated other comprehensive income. All other equity investments have been recorded at cost. Long-term investments for which the fair value was readily determinable at December 31, 2000 and 1999 consisted of the following:

	December 31, 2000		
In thousands	**Original Cost**	**Gross Unrealized Gain (Loss)**	**Fair Value**
Equity securities	**$ 3,150**	**$ (1,380)**	**$ 1,770**
Total	**$ 3,150**	**$ (1,380)**	**$ 1,770**

	December 31, 1999		
In thousands	**Original Cost**	**Gross Unrealized Gain (Loss)**	**Fair Value**
Equity securities	$ 2,003	$ 18,948	$ 20,951
Total	$ 2,003	$ 18,948	$ 20,951

Proceeds from the sale of long-term investments were $1.1 million in 2000. Gross realized gains included in 2000 income were $0.5 million, determined using the average cost method.

Note D — Long-Term Debt

Long-term debt consists of the following:

In thousands	*December 31,* **2000**	**1999**
Revolving loan commitment, various interest rates (effective rate of 7.15% at December 31, 2000), due November 4, 2002	**$ 55,000**	$ 5,000
Revolving loan commitment, various interest rates (effective rate of 5.09% at December 31, 2000), $2.3 million due December 16, 2002, remaining $1.2 million due July 20, 2003	**3,493**	–
Acquisition note payable, various interest rates (effective rate of 5.51% at December 31, 2000)	**6,877**	–
Less current maturities	**–**	–
	$ 65,370	$ 5,000

Cash payments for interest were $1.3 million, $0.1 million and $0.1 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Credit Facilities

On November 4, 1999 the Company obtained two unsecured revolving credit facilities. All borrowings under the $100 million revolving Three-Year Credit Agreement are to be repaid by November 4, 2002. On November 2, 2000 the Company was granted a 364-day extension to its $100 million revolving 364-Day Credit Agreement. All borrowings under the $100 million revolving 364-Day Credit Agreement are to be repaid by November 1, 2001 unless the Company requests and is granted another 364-day extension. Commitment fees on the total credit and interest rates for drawn amounts are determined according to a grid based on the Company's total debt to earnings ratio. Commitment fees range from .08% to .125% for the 364-day facility, and .1% to .15% for the three-year facility. Interest rates on drawn amounts range from EUROLIBOR plus .4% to EUROLIBOR plus .75%. As of December 31, 2000, the Company had $45 million and $100 million of unused borrowing capacity under its Three-Year Credit Agreement and 364-Day Credit Agreement, respectively.

On November 29, 1999 the Company obtained an unsecured credit facility in the amount of 100 million Belgium Francs for the purpose of financing the construction of a new building in Hasselt, Belgium. This facility was increased to 150 million Belgium Francs on July 18, 2000. All borrowings under the original facility amount are to be repaid by December 16, 2002 and any remaining outstanding amounts are to be repaid by July 20, 2003. The Company pays a commitment fee of .1% on the undrawn portion of the commitment. Interest rates on drawn amounts are at EURIBOR plus .15%. As of December 21, 2000, the Company had no unused borrowing capacity under this credit facility.

Acquisition Note Payable

In June 2000, the Company issued a note payable of 4.6 million British Pounds in connection with an acquisition. This note payable is due upon demand, but must be repaid no later than December 31, 2001. Interest on the note is at LIBOR minus .75%. It is the Company's intent to repay this note with borrowings under the Company's three-year revolving credit facility.

Note E — Income Taxes

The components of income tax expense are as follows:

In thousands	*Year Ended December 31,* **2000**	**1999**	**1998**
Current			
Federal	**$ 40,502**	$ 32,099	$ 33,949
State and local	**6,679**	6,079	9,012
Foreign	**1,850**	1,120	697
Total current	**$ 49,031**	$ 39,298	$ 43,658
Deferred			
Federal	**$ 5,321**	$ 8,564	$ 4,175
State and local	**621**	2,008	(45)
Total deferred	**$ 5,942**	$ 10,572	$ 4,130

Included in income tax expense for 1998 is tax expense of $0.8 million related to the pension curtailment gain.

The differences between total income tax expense and the amount computed by applying the statutory federal income tax rate to income before income taxes were as follows:

In thousands	*Year Ended December 31,* 2000		1999		1998	
Computed expected income tax expense	$ 47,900	35%	$ 42,984	35%	$ 40,656	35%
Net effect of state income taxes	4,857	4%	5,256	4%	5,891	5%
Effect of goodwill amortization	1,633	1%	1,344	1%	1,230	1%
Effect of non-taxable investment income	–	0%	(50)	0%	(424)	0%
Change in the beginning of the year balance of the valuation allowance	(112)	0%	–	0%	(63)	0%
Other, net	695	0%	336	0%	498	0%
Income tax expense for the period	$ 54,973	40%	$ 49,870	41%	$ 47,788	41%

Total income tax expense (benefit) was allocated as follows:

In thousands	*Year Ended December 31,* 2000	1999	1998
Results of operations	$ 54,973	$ 49,870	$ 47,788
Stockholders' equity	(10,207)	5,379	(3,720)
Total	$ 44,766	$ 55,249	$ 44,068

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

In thousands	*December 31,* 2000	1999
Deferred tax assets:		
Deferred compensation and retirement plans	$ 2,430	$ 4,229
Accrued expenses not deductible until paid	2,979	3,068
Accounts receivable, net	1,264	583
Other, net	806	157
State net operating loss carryforwards	455	475
Total gross deferred tax assets	7,934	8,512
Less valuation allowance	(455)	(475)
Net deferred tax assets	7,479	8,037
Deferred tax liabilities:		
Property, plant and equipment	(13,646)	(12,823)
Goodwill	(11,626)	(8,052)
State income tax	(566)	(493)
Other, net	–	(1)
Total gross deferred tax liabilities	(25,838)	(21,369)
Net deferred tax liabilities	$ (18,359)	$ (13,332)

The valuation allowance for deferred tax assets as of January 1, 1999 was $188,650. The valuation allowance at December 31, 2000 and 1999 relate to state net operating losses, which are not expected to be realized.

The net deferred tax asset (liability) is recorded both as a current deferred income tax asset and as other long-term liabilities based upon the classification of the related temporary difference.

Cash payments for income taxes were $47.8 million, $39.1 million and $302.1 million ($265.7 million related to gain on sale of discontinued operations) in 2000, 1999 and 1998, respectively.

Note F — Employee Benefit Plans

Prior to January 1, 1999, the Company maintained a defined benefit pension plan for which most of its employees were eligible. In conjunction with significant enhancements to the Company's 401(k) plan, the Company elected to freeze benefits under this defined benefit pension plan as of December 31, 1998, resulting in recognition of a curtailment gain of $2.15 million.

In 1994, the Company adopted a non-qualified, supplemental pension plan covering certain employees, which provides for incremental pension payments so that total pension payments equal those amounts that would have been payable from the Company's principal pension plan if it were not for limitations imposed by income tax regulation. The benefits under this supplemental pension plan will continue to accrue as if the principal pension plan had not been frozen.

The status of the Company's defined benefit pension plans at year-end was as follows:

In thousands	*Year ended December 31,* 2000	1999
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 68,685**	$ 86,332
Service cost	**338**	365
Interest cost	**5,373**	5,215
Actuarial loss (gain)	**15,729**	(18,708)
Benefits paid	**(4,756)**	(4,519)
Benefit obligation at end of year	**85,369**	68,685
Change in plan assets		
Fair value of plan assets at beginning of year	**101,679**	85,548
Actual return on plan assets	**(6,567)**	20,650
Benefits paid	**(4,756)**	(4,519)
Fair value of plan assets at end of year	**90,356**	101,679
Funded status	**4,987**	32,994
Unrecognized actuarial loss (gain)	**3,919**	(29,904)
Unrecognized prior service cost	**684**	750
Net amount recognized	**$ 9,590**	$ 3,840

The Company's non-qualified pension plan has an accumulated benefit obligation in excess of its assets of $7.0 million at December 31, 2000.

The weighted-average assumptions used for measurement of the defined pension plans were as follows:

	December 31, 2000	1999	1998
Weighted-average assumptions as of December 31			
Discount rate	**7.50%**	8.00%	6.00%
Expected return on plan assets	**10.00%**	10.00%	10.00%
Rate of compensation increase	**4.00%**	4.00%	4.00%

Net pension cost for both plans included the following components:

In thousands	*December 31,* 2000	1999	1998
Components of net periodic benefit cost (income)			
Service cost	**$ 338**	$ 365	$ 4,207
Interest cost	**5,373**	5,215	5,759
Expected return on plan assets	**(9,951)**	(8,351)	(8,243)
Amortization of prior service cost	**65**	65	4
Recognized actuarial loss (gain)	**(1,575)**	151	27
Recognized curtailment (gain)	**–**	–	(2,150)
Net periodic benefit income	**$ (5,750)**	$ (2,555)	$ (396)

Prior to January 1, 1999, the Company also sponsored several 401(k) plans to provide employees with additional income upon retirement. The Company generally matched a portion of employees' voluntary before-tax contributions. Employees were fully vested in their own contributions and generally vested in the Company's matching contributions upon three years of service. Effective January 1, 1999, changes were made that combined all 401(k) plans and allowed for immediate vesting of enhanced Company matching contributions. Total 401(k) expense recognized by the Company in 2000, 1999 and 1998 was $6.2 million, $5.1 million, and $1.4 million, respectively.

The 1994 Employee Stock Purchase Plan provides for a total of 2,000,000 shares to be sold to participating employees at 85% of the fair market value at specified quarterly investment dates. Shares available for sale totaled 453,198 at December 31, 2000.

Note G — Stockholders' Equity

In January 2001, the Company announced an increase in the regular quarterly dividend from 2.5 cents per share to 3 cents per share, payable March 15, 2001 to holders of record on March 1, 2001.

During 2000 the Company repurchased 3,947,856 shares of its common stock for $92.7 million under its stock repurchase program. In December 2000, the Company authorized an increase of four million shares in the Company's stock repurchase program. As of December 31, 2000 the Company has repurchased 14.0 million shares since the beginning of its stock repurchase program in January 1997. Under this program, the Company has authorization to repurchase an additional 4.6 million shares.

Note H — Stock Option Plans

1984 Plan

In 1984, the Company adopted a Stock Option Plan ("1984 Plan") pursuant to which it issued to officers and key employees options to purchase shares of common stock at prices equal to the market price on the grant date. Market price was determined by the Board of Directors for purposes of granting stock options and making repurchase offers. Options granted under the 1984 Plan become exercisable five years after date of grant. At December 31, 2000, 1999 and 1998, options to purchase 126,000 shares, 216,000 shares and 340,800 shares, respectively, were outstanding under the 1984 Plan, with an exercise price of $3.33 per share at December 31, 2000. No additional options will be granted under the 1984 Plan.

1991 Plan

The Company adopted the 1991 Stock Option Plan ("1991 Plan") pursuant to which it may issue to officers and key employees options to purchase up to 8,000,000 shares of common stock. Options have been granted at prices equal to the market price on the grant date ("market price options") and at prices below market price ("performance options"). As of December 31, 2000, 1999 and 1998, market price options to purchase 6,597,025 shares, 5,873,475 shares and 5,058,550 shares, respectively, were outstanding with exercise prices ranging from $3.33 to $26.19 per share at December 31, 2000. Market price options granted prior to January 1998 become exercisable after the fifth anniversary of their date of grant. Beginning January 1998, market price options generally become exercisable in 25% increments on the second, third, fourth and fifth anniversaries of their date of grant. The weighted-average exercise price for outstanding options and exercisable options at December 31, 2000 was $15.10 and $7.43, respectively. The weighted-average remaining life for outstanding options was 6.18 years.

At December 31, 2000, 1999 and 1998, performance options to purchase 716,600 shares, 739,400 shares and 724,700 shares, respectively, were outstanding with exercise prices ranging from $0.33 to $2.00 per share at December 31, 2000. The performance options become exercisable in whole or in part after three years, and the extent to which they become exercisable at that time depends upon the extent to which the Company achieves certain goals established at the time the options are granted. That portion of the performance options which does not become exercisable at an earlier date becomes exercisable after the ninth anniversary of the date of grant. Compensation expense of $0.4 million, $0.4 million and $0.6 million was recognized for the performance options for the years ended December 31, 2000, 1999 and 1998, respectively. The weighted-average exercise price for outstanding options and exercisable options at December 31, 2000 was $0.54 and $0.41, respectively. The weighted-average remaining life for outstanding options was 3.09 years.

DiMark

In connection with the DiMark merger, DiMark's outstanding stock options were converted into options to acquire approximately 3.0 million shares of Harte-Hanks common stock. There were no outstanding DiMark options as of December 31, 2000. As of December 31, 1999 and 1998, DiMark options to purchase 54,792 shares and 182,864 shares, respectively, were outstanding.

The following summarizes all stock option plans activity during 2000, 1999 and 1998:

	Number Of Shares	Weighted Average Option Price
Options outstanding at January 1, 1998	5,996,916	$ 7.13
Granted	1,315,050	19.13
Exercised	(727,980)	4.45
Cancelled	(277,072)	12.05
Options outstanding at December 31, 1998	6,306,914	9.72
Granted	1,575,350	22.29
Exercised	(388,097)	6.76
Cancelled	(610,500)	17.88
Options outstanding at December 31, 1999	6,883,667	12.04
Granted	**1,163,600**	**22.01**
Exercised	**(327,992)**	**7.37**
Cancelled	**(279,650)**	**20.20**
Options outstanding at December 31, 2000	**7,439,625**	**$ 13.50**
Exercisable at December 31, 2000	**2,852,831**	**$ 5.75**

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting For Stock-Based Compensation." Accordingly, no compensation expense has been recognized for options granted where the exercise price is equal to the market price of the underlying stock at the date of grant. For options issued with an exercise price below the market price of the underlying stock on the date of grant, the Company recognizes compensation expense under the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, as permitted under SFAS No. 123.

Had compensation expense for the Company's options been determined based on the fair value at the grant date for awards since January 1, 1995, consistent with the provisions of SFAS No. 123, the Company's net income and diluted earnings per share would have been reduced to the pro forma amounts indicated below.

In thousands except per share amounts	*Year ended December 31,* **2000**	**1999**	**1998**
Net income — as reported	**$ 81,866**	$ 72,941	$ 68,371
Net income — pro forma	**77,245**	68,923	65,636
Diluted earnings per share — as reported	**1.18**	1.01	0.90
Diluted earnings per share — pro forma	**1.11**	0.95	0.86

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000, 1999 and 1998:

	Year ended December 31,		
	2000	**1999**	**1998**
Expected dividend yield	**0.4%**	0.3%	0.3%
Expected stock price volatility	**23.0%**	22.0%	21.0%
Risk free interest rate	**6.0%**	6.0%	6.0%
Expected life of options	**3-10 years**	3-10 years	3-10 years

The weighted-average fair value of market price options granted during 2000, 1999 and 1998 was $9.66, $9.24 and $7.79, respectively. The weighted-average fair value of performance options granted during 1999 and 1998 was $22.54 and $16.82, respectively. The Company did not grant any performance options during 2000.

Note I — Fair Value of Financial Instruments

Because of their maturities and/or variable interest rates, certain financial instruments of the Company have fair values approximating their carrying values. These instruments include revolving credit agreements, accounts receivable, trade payables, and miscellaneous notes receivable and payable. The Company's equity securities which have a readily determinable fair value are recorded at fair value. (See Note C.)

Note J — Commitments and Contingencies

At December 31, 2000, the Company had outstanding letters of credit in the amount of $12.6 million. These letters of credit exist to support an acquisition related note, the Company's insurance programs relating to worker's compensation, automobile and general liability, and leases.

Note K — Leases

The Company leases certain real estate and equipment under various operating leases. Most of the leases contain renewal options for varying periods of time. The total rent expense applicable to operating leases was $26.3 million, $23.0 million and $18.5 million for the years ended December 31, 2000, 1999 and 1998, respectively.

The future minimum rental commitments for all non-cancellable operating leases with terms in excess of one year as of December 31, 2000 are as follows:

In thousands	
2001	$ 23,135
2002	18,697
2003	13,768
2004	9,656
2005	5,184
After 2005	21,613
	$ 92,053

Note L — Earnings Per Share

A reconciliation of basic and diluted earnings per share is as follows:

In thousands except per share amounts	Year ended December 31,		
	2000	**1999**	**1998**
BASIC EPS			
Net income	**$ 81,886**	$ 72,941	$ 68,371
Weighted-average common shares outstanding used in earnings per share computations	**67,517**	69,914	72,716
Earnings per share	**$ 1.21**	$ 1.04	$ 0.94
DILUTED EPS			
Net income	**$ 81,886**	$ 72,941	$ 68,371
Shares used in earnings per share computations	**69,653**	72,144	76,057
Earnings per share	**$ 1.18**	$ 1.01	$ 0.90
Computation of Shares Used in Earnings Per Share Computations			
Average outstanding common shares	**67,517**	69,914	72,716
Average common equivalent shares — dilutive effect of option shares	**2,136**	2,230	3,341
Shares used in net earnings per share computations	**69,653**	72,144	76,057

As of December 31, 2000 the Company had 864,864 antidilutive market price options outstanding.

Note M — Selected Quarterly Data (Unaudited)

In thousands, except per share amounts	2000 Quarter Ended				1999 Quarter Ended			
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
Revenues	**$ 255,818**	**$ 243,205**	**$ 235,693**	**$ 226,057**	$ 236,959	$ 207,632	$ 197,033	$ 188,128
Operating income	**36,824**	**35,400**	**35,846**	**30,151**	33,423	30,263	30,441	24,101
Net income	**21,605**	**21,132**	**21,395**	**17,754**	20,236	18,603	18,768	15,334
Basic earnings per share	**0.33**	**0.31**	**0.31**	**0.26**	0.30	0.27	0.27	0.22
Diluted earnings per share	**0.32**	**0.30**	**0.30**	**0.25**	0.29	0.26	0.26	0.21

Note N — Business Segments

Harte-Hanks is a highly focused targeted media company with operations in two segments — direct and interactive marketing and shoppers.

The Company's direct and interactive marketing segment offers a complete range of specialized, coordinated and integrated direct marketing services from a single source. CRM and Marketing Services are provided in the direct and interactive marketing segment. CRM revenues were $419.5 million, $335.5 million and $301.3 million in 2000, 1999 and 1998, respectively. Marketing Services' revenues were $242.5 million, $223.8 million and $192.6 million in 2000, 1999 and 1998, respectively. The Company utilizes advanced technologies to enable its customers to identify, reach, influence and nurture specific consumers or businesses. The Company's direct and interactive marketing customers include many of America's largest retailers, banks, mutual fund companies, pharmaceutical companies, healthcare organizations, insurance companies, high-tech firms and telecommunications firms, along with a growing number of customers in such selected markets as automotive, utilities and hospitality. Its client base is both domestic and international.

The Company's shoppers segment produces weekly advertising publications primarily delivered free by third-class mail to all households 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.

Included in Corporate Activities are general corporate expenses. Assets of Corporate Activities include unallocated cash and investments and deferred income taxes.

Information as to the operations of Harte-Hanks in different business segments is set forth below based on the nature of the products and services offered. Harte-Hanks evaluates performance based on several factors, of which the primary financial measures are segment revenues and operating income. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies (Note A).

The operating results of Harte-Hanks Direct Marketing include the acquisitions of Information Resource Group in November 2000 and Hi-Tech Marketing Limited in June 2000.

Note N — Business Segments (continued)

Information about the Company's operations in different industry segments:

Year Ended December 31,

In thousands	2000	1999	1998
Revenues			
Direct Marketing	$ 662,044	$ 559,262	$ 493,898
Shoppers	298,729	270,490	254,648
Total revenues	$ 960,773	$ 829,752	$ 748,546
Operating income			
Direct Marketing	$ 91,450	$ 79,164	$ 69,648
Shoppers	55,710	47,015	40,507
Corporate Activities	(8,939)	(7,951)	(8,197)
Total operating income	$ 138,221	$ 118,228	$ 101,958
Income before income taxes			
Operating income	$ 138,221	$ 118,228	$ 101,958
Interest expense	(1,678)	(349)	(193)
Interest income	2,062	5,662	13,474
Other, net	(1,746)	(730)	(1,230)
Pension curtailment gain	–	–	2,150
Total income before income taxes	$ 136,859	$ 122,811	$ 116,159
Depreciation			
Direct Marketing	$ 23,022	$ 18,804	$ 15,977
Shoppers	5,393	5,235	5,025
Corporate Activities	79	87	85
Total depreciation	$ 28,494	$ 24,126	$ 21,087
Goodwill and intangible amortization			
Direct Marketing	$ 11,156	$ 6,593	$ 3,703
Shoppers	4,070	4,069	4,187
Total goodwill and intangible amortization	$ 15,226	$ 10,662	$ 7,890
Total assets			
Direct Marketing	$ 589,552	$ 512,066	$ 341,653
Shoppers	187,905	196,121	197,885
Corporate Activities	29,648	61,240	175,675
Total assets	$ 807,105	$ 769,427	$ 715,213
Capital expenditures			
Direct Marketing	$ 34,030	$ 24,450	$ 18,655
Shoppers	2,408	4,434	5,764
Corporate Activities	27	44	24
Total capital expenditures	$ 36,465	$ 28,928	$ 24,443

Information about the Company's operations in different geographic areas:

Year Ended December 31,

In thousands	2000	1999	1998
Revenues[a]			
United States	$ 917,160	$ 800,700	$ 724,659
Other countries	43,613	29,052	23,887
Total revenues	$ 960,773	$ 829,752	$ 748,546
Long-lived assets[b]			
United States	$ 104,507	$ 102,630	$ 89,905
Other countries	7,558	3,620	2,369
Total long-lived assets	$ 112,065	$ 106,250	$ 92,274

a Geographic revenues are based on the location of the customer.

b Long-lived assets are based on physical location.

Five-Year Financial Summary

In thousands, except per share amounts	2000	1999	1998	1997	1996
Statement of Operations Data					
Revenues	**$ 960,773**	$ 829,752	$ 748,546	$ 638,349	$ 515,460
Operating expenses					
Payroll, production and distribution	**686,502**	606,676	553,529	479,742	392,494
Selling, general and administrative	**92,330**	70,060	64,082	59,054	43,632
Depreciation	**28,494**	24,126	21,087	17,327	13,779
Goodwill and intangible amortization	**15,226**	10,662	7,890	5,134	3,658
Merger costs	**–**	–	–	–	12,136[a]
Total operating expense	**822,552**	711,524	646,588	561,257	465,699
Operating income	**138,221**	118,228	101,958	77,092	49,761
Interest expense, net	**(384)**	(5,313)	(13,281)	1,777	6,629
Income from continuing operations[b]	**81,886**	72,941	68,371[c]	44,271[d]	23,084[e]
Income from continuing operations after extraordinary items, net of taxes	**81,886**	72,941	68,371	43,396[f]	23,084
Earnings from continuing operations per common share — diluted	**1.18**	1.01	0.90[c]	0.57[d]	0.30[e]
Earnings from continuing operations after extra-ordinary items per common share — diluted	**1.18**	1.01	0.90[c]	0.56[f]	0.30[e]
Cash dividends per common share	**0.10**	0.08	0.06	0.04	0.03
Weighted-average common and common equivalent shares outstanding — diluted	**69,653**	72,144	76,057	77,000	77,154
Segment Data					
Revenues					
Direct Marketing	**$ 662,044**	$ 559,262	$ 493,898	$ 425,489	$ 330,255
Shoppers	**298,729**	270,490	254,648	212,860	185,205
Total revenues	**$ 960,773**	$ 829,752	$ 748,546	$ 638,349	$ 515,460
Operating income					
Direct Marketing	**$ 91,450**	$ 79,164	$ 69,648	$ 54,360	$ 44,794
Shoppers	**55,710**	47,015	40,507	31,089	24,017
General corporate	**(8,939)**	(7,951)	(8,197)	(8,357)	(19,050)
Total operating income	**$ 138,221**	$ 118,228	$ 101,958	$ 77,092	$ 49,761
Other Data					
Operating cash flow[g]	**$ 181,941**	$ 153,016	$ 130,935	$ 99,553	$ 67,198[h]
Capital expenditures	**36,465**	28,928	24,443	28,396	23,885
Balance Sheet Data (at end of period)					
Property, plant and equipment, net	**$ 112,065**	$ 106,250	$ 92,274	$ 89,351	$ 72,195
Goodwill and other intangibles, net	**439,148**	409,791	290,831	250,363	142,053
Total assets	**807,105**	769,427	715,213	954,923	343,005
Total long term debt	**65,370**	5,000	–	–	218,005
Total stockholders' equity	**551,003**	577,618	577,091	566,237	252,692

a Merger costs of $12.1 million related to DiMark merger.

b Represents income and earnings from continuing operations per common share before extraordinary items.

c Includes non-recurring pension gain of $1.3 million, or two cents per share, net of $0.8 million income tax expense. Excluding this gain, earnings were $0.88 per share.

d Includes non-recurring income of $0.4 million, or one-half cent per share, net of $0.4 million income tax expense related to the sale of stock in another company partially offset by other non-recurring items. Excluding this income, earnings were $0.57 per share.

e Includes merger costs of $8.7 million, or 11 cents per share, net of $3.4 million income tax benefit. Excluding these costs, earnings were $0.41 per share.

f Includes extraordinary loss from the early extinguishment of debt of $0.9 million, net of $0.6 million income tax benefit.

g Operating cash flow is defined as operating income plus depreciation and goodwill amortization. Operating cash flow is not intended to represent cash flow or any other measure of performance in accordance with generally accepted accounting principles.

h Excluding 1996 merger costs, operating cash flow was $79,334.

Independent Auditors' Report

The Board of Directors and Stockholders
Harte-Hanks, Inc.:

We have audited the accompanying consolidated balance sheets of Harte-Hanks, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harte-Hanks, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

San Antonio, Texas

January 29, 2001

Corporate Information

Common Stock

The Company's common stock is listed on the New York Stock Exchange (symbol: HHS). The quarterly stock price ranges for 2000 and 1999 were as follows:

	2000		1999	
	High	Low	High	Low
First Quarter	26.7500	19.6250	29.2500	24.1250
Second Quarter	25.9375	21.0000	28.0000	22.6250
Third Quarter	27.8750	24.3750	27.4375	21.7500
Fourth Quarter	28.4375	21.5000	23.9375	19.5625

In 2000, quarterly dividends were paid at the rate of 2.5 cents per share. In 1999, quarterly dividends were paid at the rate of 2 cent per share.

There are approximately 3,100 holders of record.

Transfer Agent and Registrar
State Street Bank and Trust Company
c/o EquiServe Limited Partnership
P. O. Box 8200
Boston, Massachusetts 02266-8200

Annual Meeting of Stockholders
The annual meeting of stockholders will be held at
10:00 a.m. on May 8, 2001, at 200 Concord Plaza Drive,
First Floor, San Antonio, Texas.

Form 10-K Annual Report
A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K may be obtained, without charge, upon written request to:

Donald R. Crews, Secretary
Harte-Hanks, Inc.
P. O. Box 269
San Antonio, Texas 78291-0269

Directors

David L. Copeland
President, SIPCO, Inc.

Dr. Peter T. Flawn
President Emeritus
The University of Texas at Austin
Chairman, Audit Committee

Larry Franklin
Chairman and
Chief Executive Officer

Christopher M. Harte
Private Investor

Houston H. Harte
Vice Chairman

Richard M. Hochhauser
President and
Chief Operating Officer

James L. Johnson
Chairman Emeritus,
GTE Corporation
Chairman, Compensation Committee

Officers

Larry Franklin
Chairman and
Chief Executive Officer

Richard M. Hochhauser
President and
Chief Operating Officer

Craig Combest
Senior Vice President,
Direct Marketing

Donald R. Crews
Senior Vice President,
Legal and Secretary

Charles Dall'Acqua
Senior Vice President,
Direct Marketing

Peter E. Gorman
Senior Vice President, Shoppers

Jacques D. Kerrest
Senior Vice President,
Finance and Chief Financial Officer

Gary J. Skidmore
Senior Vice President,
Direct Marketing

Robert G. Brown
Vice President, Direct Marketing

Kathy S. Calta
Vice President, Direct Marketing

James S. Davis
Vice President, Direct Marketing

Bill Goldberg
Vice President, Direct Marketing

Spencer A. Joyner, Jr.
Vice President, Direct Marketing

Federico Ortiz
Vice President, Tax

R. Tann Tueller
Vice President, Direct Marketing

Jessica M. Huff
Controller and
Chief Accounting Officer

Harte-Hanks Operations

Corporate Office

San Antonio, Texas
http://www.harte-hanks.com

Direct and Interactive Marketing

CRM

Austin, Texas
Billerica, Massachusetts
Dallas, Texas
Glen Burnie, Maryland
La Jolla, California
Lake Katrine, New York
Lake Mary, Florida
Los Angeles, California
New York, New York
River Edge, New Jersey
Sterling Heights, Michigan
Sunnyvale, California
West Bridgewater, Massachusetts

Marketing Services

Baltimore, Maryland
Bellmawr, New Jersey
Bloomfield, Connecticut
Cherry Hill, New Jersey
Cincinnati, Ohio
Clearwater, Florida
Dallas/Grand Prairie, Texas
Deerfield Beach, Florida
Fullerton, California
Jacksonville, Florida
Kansas City, Kansas
Langhorne, Pennsylvania
Memphis, Tennessee
New York, New York
Sacramento, California
Westville, New Jersey
Wilkes-Barre, Pennsylvania

National Sales Headquarters

Cincinnati, Ohio
Kansas City, Kansas
La Jolla, California

International Offices

Dublin, Ireland
Hasselt, Belgium
London, England
Madrid, Spain
Melbourne, Australia
São Paulo, Brazil
Sevres, France
Slough, England
Thatcham, England
Toronto, Canada

Shoppers

The Flyer
South Florida
http://www.theflyer.com

PennySaver
Northern California
http://www.pennysaverusa.com

PennySaver/South Coast Shopper
Southern California —
Greater Los Angeles Area
http://www.pennysaverusa.com

PennySaver/Bargain Bulletin
Southern California —
Greater San Diego Area
http://www.pennysaverusa.com

HARTE HANKS

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