

annual report

DIRECT MARKETING – U.S. OFFICES Austin, Texas | Baltimore, Maryland | Billerica, Massachusetts | Bloomfield, Connecticut | Boston, Massachusetts
Cincinnati, Ohio | Clearwater, Florida | Deerfield Beach, Florida | East Bridgewater, Massachusetts | Fort Worth, Texas | Fullerton, California | Glen Burnie, Maryland
Grand Prairie, Texas | Jacksonville, Florida | Lake Mary, Florida | Langhorne, Pennsylvania | Monroe Township, New Jersey | New York, New York | Ontario, California
Pennsauken, New Jersey | Richardson, Texas | San Diego, California | Shawnee, Kansas | Troy, Michigan | Wilkes-Barre, Pennsylvania **NATIONAL MARKETS**
HEADQUARTERS Cincinnati, Ohio **DIRECT MARKETING – INTERNATIONAL OFFICES** Aldermaston, United Kingdom | Böblingen, Germany | Bristol, United Kingdom
Dublin, Ireland | Frenchs Forest (Sydney), Australia | Hasselt, Belgium | Les Ulis, France | Madrid, Spain | Manila, Philippines | Melbourne, Australia | São Paulo, Brazil
Uxbridge, United Kingdom **SHOPPERS – THE FLYER** South Florida | Central-West Florida **PENNYSAVER** Northern California | Los Angeles | San Diego

To our shareholders

In 2006, Harte-Hanks grew through innovation. While our revenue and profit performance were less than planned, we took significant steps designed to improve results in the years to come. Furthermore, the company continued to assert its role as an industry leader in both direct marketing and targeted advertising services.

Direct Marketing: A Construct for Customer Optimization

In Direct Marketing, our clients in retail, technology, financial services, pharmaceutical, and other select markets, such as automotive and manufacturing, are pursuing strategies to “build” their prospect and client relationships. Harte-Hanks is helping our clients achieve success by offering them a new construct for “customer optimization” and applying it in ways that help them solve their marketing problems and address opportunities with their customers.

Today, the customer is more empowered and has so many choices. *The customer rules!* Thus, companies are faced with a challenge to deliver optimal customer experiences. Harte-Hanks account teams ask our clients pointed questions about their business, their markets, their channels, their customers and how they desire to interact with them.

1. Do clients want to leverage information?

Yes, by building and updating a customer database with the goal of increasing profits. A database that collects accurate, high-quality data, globally and vertically, and delivers a dynamic “360-degree” view of the customer.

2. Do clients seek to create opportunity from their information?

Yes, by accessing and utilizing data. Companies are adopting a multichannel, real-time orientation that allows for informed customer views and interactions. They are placing customer knowledge throughout their organization and at the center of business decisions.

3. Do they want valuable insight from their data?

Yes, data analysis and interpretation become knowledge in a way that ultimately yields relevant action – to realize more future value from pinpoint targeting and predicting, and intelligence that goes beyond marketing.

4. Do they want to apply insight to better engage with their customers?

Yes, to be able to develop knowledge-driven applications that enable a dynamic dialogue

throughout the customer lifecycle and deliver exceptional customer experiences.

5. Do they want optimal interactions with their customers?

Yes, based on brilliantly engineered implementation and execution favoring each customer’s preferred inbound and outbound channels, both online and offline.

In the day-to-day practice of business, there are never enough people, time, or money to maximize every goal a client has – thus we say “optimize,” not “maximize.” We understand it’s all about managing trade-offs to achieve customer optimization. **Customer Optimization** seeks to balance the customer experience with a client’s financial performance.

CUSTOMER OPTIMIZATION



“Today, the customer is more empowered and has so many choices. *The customer rules!* Thus, companies are faced with a challenge to deliver optimal customer experiences... Customer Optimization seeks to balance the customer experience with a client’s financial performance.”

During 2006, the company⁽¹⁾ received these accolades:

- Harte-Hanks Postfuture® e-mail was identified as a market leader by both Forrester and JupiterResearch
- Harte-Hanks Trillium Software® was named as a market leader for information quality software by Forrester and Gartner
- Harte-Hanks also was recognized as a “strong performer” among database service providers – one of only a handful of companies recognized from an initial list of more than 100 firms
- Harte-Hanks was named to the inaugural listing of the Global Outsourcing 100, assembled by the International Association of Outsourcing Professionals and reported in *Fortune* magazine
- Harte-Hanks, with a telecommunications client, received the top business-to-business Database Excellence Award from the National Center for Database Marketing on behalf of a “new customer onboarding and cross-sell” campaign
- The company’s agency business continues to be ranked among the largest direct marketing agencies in the United States (by *Advertising Age*)

Shoppers Increases its Local Advertising Reach and Impact

“We bring buyers and sellers together,” is the touchstone of our Shoppers’ publishing and e-marketing business and an integral part of the mission statement for Harte-Hanks Shoppers.

Here, too, the customers rule!

2006 was a year of continued growth and expansion for Shoppers, both in print and online. To provide a perspective here, consider that in just the past three years, print circulation of our shopper publications (*PennySaver* in California, and *The Flyer* in Florida) has grown from 10.7 million to more than 13.4 million; and the number of weekly, zoned editions increased from nearly 900 to more than 1,100. During the same period, revenue increased by \$115 million. On the Internet, *PennySaverUSA.com* and *TheFlyer.com* now represent more than a half million classified ads weekly in all 50 states (through strategic alliances with shopper publications across the country and selected e-marketing concerns).

In January 2006, *PennySaverUSA.com/TheFlyer.com*, which were initiated as Web sites a decade ago, were made a stand-alone business within Harte-Hanks Shoppers. During the first six months of 2006, Web site page views more than doubled, and we placed more than ten times as many ads online in 2006 compared to 2005. We also have added *ShopLocal.com* and *Move.com* to our Web sites as co-branded partners, and we are working on additional partnerships with large companies. We are now challenged to monetize these and future relationships, which will start, albeit slowly, in 2007.

Our *PennySaver* print edition in California posts circulation of more than 10.6 million copies each week. In Florida, the publication is called *The Flyer*, with an operation in South Florida and the Tampa area, where we achieve more than 2.8 million copies each week. One of our approaches to growth in Florida is patterned after our successes in California – contiguous circulation expansion.

In the past year, in Florida, we’ve grown circulation by 315,000, and while we will pause in 2007, we do have a Shopper-wide strategic initiative of expansion. Based on our business model, Florida,



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Richard Hochhauser
President & Chief Executive Officer

like California, has the potential for significant circulation growth of households within our circulation plan. We are further along in California and are getting more aggressive in Florida.

In one market, we put in place a common order entry system that each of our Shoppers advertising sales teams will be able to use when fully rolled out. It is more intuitive, will enable more cross-selling among units, and will allow for increased market-based pricing and enhanced reservation capability for ad sales and placement.

We will continue to emphasize new products, digital offerings, geographic expansion, shared systems – and, of course, revenue and profit growth, in the years ahead.

Acquisitions That Serve Our Strategy

During the course of the year, Harte-Hanks made a number of strategic acquisitions to enhance our marketing capabilities and knowledge. Among our acquisitions were:

- Aberdeen Group, Inc., a Boston, MA-based provider of technology market research, intelligence, and demand generation services. Harte-Hanks sees immediate synergies with our Ci Technology Database, market intelligence and lead generation services, particularly in

the technology sector, as many companies are using original research, commissioned white papers, and analyst reports as a means for asserting thought leadership and identifying potential customers.

- Global Address, a United Kingdom-based company that provides global postal address data quality software and services incorporating standards for more than 230 nations and territories worldwide – a complement to both our data quality software and services offerings, as well as an opportunity for further international expansion.
- StepDot Software GmbH of Germany, a data quality and integration company, which now does business as Harte-Hanks Trillium Software – Germany GmbH. Beyond gaining a greater foothold in Central Europe, the acquisition facilitates the penetration of Harte-Hanks with European pharmaceutical companies, which have relied on StepDot for enterprise data quality.

During the year, Harte-Hanks also acquired certain assets of other companies with business intelligence and digital printing capabilities, and divested of a stand-alone print operation.

We also expanded internationally by opening a marketing operations facility in Manila, Philippines.

Leadership Leads to Performance

For all of 2006, our diluted earnings per share increased to \$1.39 on revenues of \$1.18 billion – reflecting increases of 8.6%⁽¹⁾ and 4.4%, respectively. Direct Marketing, comprising 60% of total revenue, grew revenue by 2.2%, while operating income grew 4.9%.⁽²⁾ Our Shoppers performance included revenue growth of 7.8%, while operating income declined 3.8%.⁽²⁾

We continued to use capital to repurchase shares, a program initiated in 1997. During 2006, we repurchased 7.1 million shares, bringing our total during the past ten years to 50.6 million shares repurchased. Our total capital projects spending in 2006 was \$33.7 million.

In Direct Marketing, all of our corporate officers and vice presidents increased their responsibilities. At the beginning of 2007, Dean Blythe, Kathy Calta and Gary Skidmore were named executive vice presidents. They join Pete Gorman, who serves as president and chief executive officer of Harte-Hanks Shoppers, for a total of four executive vice presidents across the organization. In addition, Bryan Pechersky has joined Harte-Hanks as senior vice president, general counsel and secretary.

Harte-Hanks has the people, processes and technologies to manage in a fast-changing environment. Our people continue to excel on behalf of our clients, and that is why our mission as a customer-focused, high-performance growth company is relevant, credible and a differentiator. We focus on what is important: our customers, our employees, our shareholders and our communities. We have made, we are making and we will continue to make it happen for these important constituencies.

RICHARD HOCHHAUSER
President & Chief Executive Officer
March 2007

⁽¹⁾ With 2005 EPS results adjusted to add stock-based compensation expense. Without this adjustment, diluted earnings per share increased by 3.7% year over year.

⁽²⁾ With 2006 operating income adjusted to remove stock-based compensation expense. Without this adjustment, Direct Marketing operating income grew by 1.3% year over year and Shoppers operating income declined by 5.7% year over year.

DIRECTORS

David Copeland
President, SIPCO, Inc.

William Farley
*Founder & Owner,
Livingston Capital*

Larry Franklin
Chairman

William Gayden
*Chairman & Chief Executive Officer,
Merit Energy Company*

Christopher Harte
Private Investor

Houston Harte
Vice Chairman

Richard Hochhauser
President & Chief Executive Officer

Judy Odom
*Private Investor
Co-Founder, Former Chairman
& Chief Executive Officer,
Software Spectrum, Inc.*

OFFICERS

Richard Hochhauser
President & Chief Executive Officer

Dean Blythe
*Executive Vice President & Chief
Financial Officer*

Kathy Calta
Executive Vice President, Direct Marketing

Peter Gorman
Executive Vice President, Shoppers

Gary Skidmore
Executive Vice President, Direct Marketing

James Davis
Senior Vice President, Direct Marketing

Bill Goldberg
Senior Vice President, Direct Marketing

Bryan Pechersky
*Senior Vice President, General
Counsel & Secretary*

Robert Colucci
Vice President, Direct Marketing

Loren Dalton
Vice President, Shoppers

Carlos Guzman
Vice President, Shoppers

Frank Harvey
Vice President, Direct Marketing

Jessica Huff
*Vice President, Finance & Chief
Accounting Officer*

Spencer Joyner, Jr.
Vice President, Direct Marketing

Dave LaGreca
Vice President, Direct Marketing

Federico Ortiz
Vice President, Tax

Michael Paulsin
Vice President, Shoppers

Tann Tueller
Vice President, Direct Marketing

CORPORATE OFFICE

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

DIRECT MARKETING

Austin, Texas
Baltimore, Maryland
Billerica, Massachusetts
Bloomfield, Connecticut
Boston, Massachusetts
Cincinnati, Ohio
Clearwater, Florida
Deerfield Beach, Florida
East Bridgewater, Massachusetts
Fort Worth, Texas
Fullerton, California
Glen Burnie, Maryland
Grand Prairie, Texas
Jacksonville, Florida
Lake Mary, Florida
Langhorne, Pennsylvania

Monroe Township, New Jersey
New York, New York
Ontario, California
Pennsauken, New Jersey
Richardson, Texas
San Diego, California
Shawnee, Kansas
Troy, Michigan
Wilkes-Barre, Pennsylvania

NATIONAL MARKETS HEADQUARTERS

Cincinnati, Ohio

INTERNATIONAL OFFICES

Aldermaston, United Kingdom
Böblingen, Germany
Bristol, United Kingdom
Dublin, Ireland
Frenchs Forest (Sydney), Australia

Hasselt, Belgium
Les Ulis, France
Madrid, Spain
Manila, Philippines
Melbourne, Australia
São Paulo, Brazil
Uxbridge, United Kingdom

SHOPPERS

The Flyer
South Florida
Central-West Florida
<http://www.theflyer.com>

PennySaver
Northern California
Southern California —
Los Angeles
San Diego
<http://www.pennysaverusa.com>

The locations listed on this page reflect Harte-Hanks offices and facilities worldwide as of March 2007.

FORWARD-LOOKING STATEMENTS

Statements in this report concerning our business outlook, future financial performance and other statements that are not historical facts are "forward-looking statements" as defined under applicable federal securities laws. Forward-looking statements are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from those statements. Such risks, uncertainties, and factors include, but are not limited to, public concern over consumer privacy issues, which may lead to enactment of legislation restricting or prohibiting the collection and use of information that is currently legally available, competitive pressures, fluctuations in paper prices and postal rates, and general or regional economic conditions, as well as other risks discussed in our filings with the Securities and Exchange Commission, including our Form 10-K for the year ended December 31, 2006.

MANAGEMENT CERTIFICATIONS

In accordance with the Sarbanes-Oxley Act of 2002 and regulations thereunder, our chief executive officer and chief financial officer have signed certificates under Sarbanes-Oxley Section 302, which have been filed as exhibits to our Form 10-K for the year ended December 31, 2006. In addition, our chief executive officer submitted his most recent annual certification to the NYSE under Section 303A.12(a) of the NYSE listing standards on May 22, 2006.



We make it happen.

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