HARTE-HANKS

April 11, 2008

To Our Stockholders:

I am pleased to provide my first report to our stockholders as president and chief executive officer of Harte-Hanks, Inc. We faced challenges in 2007, and as indicated by our financial results we fell short in meeting and overcoming these challenges. For all of 2007, our diluted earnings per share decreased to $1.26 on revenue of $1.16 billion — decreases of 9.4% and 1.8%, respectively, from 2006. Direct Marketing, comprising 63% of total 2007 revenue, grew revenue by 3.2%, while operating income declined by 0.6%. Our Shoppers revenue declined by 9.4%, while operating income declined 20.3%.

As we reflect on our 2007 performance and look to 2008, we remain firm in our conviction that the targeted marketing business in which we operate has strong growth opportunities and will continue to be driven by positive, secular trends toward the use of measurable media. The fundamental services we provide in each of our businesses are essential to customers in any economic environment, and even more so in uncertain economic times such as these. And even with our 2007 performance, these businesses continue to be strong generators of cash, with $105.4 million of free cash flow in 2007.[1]

Direct Marketing: Measurable, Accountable and Vertical Market Expertise

In Direct Marketing in 2007, we achieved steady, but less than acceptable, growth. We believe improved performance can be achieved in this business over the long-term, particularly as direct and data-driven marketing are in demand by marketers who insist on the greater measurability and accountability that is inherent in direct-response advertising. Gary Skidmore, who was named president of our Direct Marketing business in 2007, is leading our drive to improved performance through placing focus on what he refers to as “PACE” — People, Accountability, Customers, and Empowerment.

With our vertical market approach in Direct Marketing, Harte-Hanks remains a leader in retail, insurance and financial services, technology, healthcare and pharmaceuticals, and a variety of other “select” markets, among them automotive, consumer brands, non-profit and public sectors.

In addition to our penetration in key vertical markets, Harte-Hanks is highly regarded as a direct marketing services provider in various functional areas. Independent research again has named Harte-Hanks and its Allink® Solution Suite a “strong performer” for enterprise marketing database solutions, and, for the first time, as a “market leader” for mid-market database solutions, our target market during the past three years. Further, our Trillium Software System® data quality offering continues to be deemed a “market leader” for data quality software, and is used by global companies not only for marketing applications, but also for all types of data quality and business intelligence initiatives.

In the digital marketing arena, we continue to invest in the development and expansion of our digital practice, including fully integrating the Harte-Hanks Postfuture® platform and adding new capabilities for triggered messaging, measurement, and analysis. In the world of business-to-business information, our Ci Technology Database™ continues to be the largest, most in-depth database of its kind, with more than 1.8 million business and technology contacts on three continents, and our Aberdeen Group issued more than 200 fact-based research reports in 2007 detailing adoption and impact of best-in-class business practices in two dozen business areas.

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[1] Free cash flow is a non-GAAP financial measure, defined as net income, plus depreciation and amortization, plus stock-based compensation (tax-effected), less capital expenditures. For 2007, our net income was $92.6 million. Our January 31, 2008 earnings release tables provide a reconciliation of 2007 free cash flow to 2007 net income.

Shoppers: Targeted Media in a Challenging Marketplace

Our Shoppers business has been negatively affected by the California and Florida economies, the two geographies where we distribute printed, targeted local advertising "shopper" publications using direct mail zoned for specific neighborhoods. In particular, the real estate market has had an unfavorable impact on our revenue and income performance, affecting not only the quantity of real estate listings, but advertising by mortgage brokers, contractors, handymen, and retailers related to the home and spreading to other advertising categories as well.

There is no doubt that our Shoppers business was under extreme pressure throughout 2007. But Shoppers has a unique, highly effective product that has delivered outstanding results for its advertisers for decades. We continue to believe that Shoppers remains a fundamentally sound long-term business with significant franchise value whose performance will improve after the current cyclical issues in the California and Florida markets stabilize and subside.

In these difficult times, Pete Gorman, who leads our Shoppers business, has instilled in his team the mantra of "out-performing" — this means controlling and winning what we do control: competing vigorously for every dollar at the top line, and reducing expenses at the middle line, which we have done through circulation and work force reductions. In addition, we continue building a national local advertising network online in our two digital sites, *PennySaverUSA.com* and *TheFlyer.com*, and reflecting the multichannel power of our Shoppers brands, both print and digital versions now carry the ".com" name.

At year's end, the print publication of *PennySaverUSA.com* had circulation of approximately 10 million in California, and the print publication of *TheFlyer.com* had circulation of nearly 3 million in Southern and Central Florida — representing roughly 1,000 unique, zoned editions. In mid-2007, we eliminated 600,000 of unprofitable circulation.

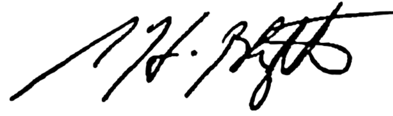
Corporate Update

2007 also marked a change in our company's leadership team. Richard Hochhauser announced his retirement as president and chief executive officer after leading Harte-Hanks since 2002, and serving in the company since 1975. In conjunction with this announcement during the third quarter, I was named president, and in February 2008, I became chief executive officer, completing the transition. As mentioned above, in August 2007, Gary Skidmore was promoted to president, Harte-Hanks Direct Marketing, with responsibility for all of our global Direct Marketing businesses. Pete Gorman, president, Harte-Hanks Shoppers, continues to lead our Shoppers business through its current challenges. Gary and Pete are also corporate executive vice presidents. In December 2007, Doug Shepard joined our company and was named executive vice president and chief financial officer, filling my previously held positions. He formerly served as chief financial officer and treasurer of HVHC Inc., the vision holding company of health-care provider Highmark Inc., and as executive vice president, chief financial officer, treasurer and secretary of Eye Care Centers of America, Inc., which is owned by HVHC.

We continue to evaluate acquisitions for our business, to help us capitalize on strategic opportunities and to meet customer needs. During the third quarter in 2007, we announced a relationship and option to acquire Information Arts, a United Kingdom-based analytics and insight firm specializing in business-to-business markets, where Harte-Hanks has several global clients in need of such services in overseas markets. In early 2008, we announced the acquisition of Mason Zimbler, a digital agency also based in the UK with expertise in online branding and marketing, and a specialty in business-to-business markets.

We continued to use capital to repurchase shares, a program initiated in 1997. During 2007, we repurchased 8.4 million shares, bringing our total during the past 11 years to 59.0 million shares repurchased (split adjusted). In January 2008, the board increased the share repurchase authorization by 12.5 million shares, bringing the total remaining repurchase authorization to approximately 15.2 million as of January 15, 2008. Our total capital projects spending in 2007 was $28.2 million. In January 2008, the company also announced a 7% increase in the quarterly dividend, to 7.5 cents per share, effective with the dividend paid on March 14, 2008, marking the thirteenth dividend increase since the company's 1993 IPO.

One of the hallmarks of the Harte-Hanks brand is the quality and dedication of our people. In a dynamic environment, we are prepared to excel for our customers, help them succeed, and differentiate our company from competitors through our focus, values and performance. We believe that, too, will make a difference for our stockholders.



DEAN BLYTHE
President & Chief Executive Officer

Please refer to the Cautionary Note Regarding Forward-Looking Statements in Item 1A. of the enclosed annual report on Form 10-K.

Notice of Annual Meeting

and

Proxy Statement

HARTE-HANKS, INC.
200 Concord Plaza Drive, Suite 800
San Antonio, Texas 78216

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 13, 2008

As a stockholder of Harte-Hanks, Inc., a Delaware corporation, you are hereby given notice of, and invited to attend in person or by proxy, Harte-Hanks' 2008 annual meeting of stockholders. The annual meeting will be held at the **DoubleTree Hotel, 37 NE Loop 410, San Antonio, Texas 78216, on Tuesday, May 13, 2008, at 8:30 a.m. Central Time,** for the following purposes:

1. To elect three Class III directors, each for a three-year term;
2. To ratify the appointment of KPMG LLP as Harte-Hanks' independent registered public accounting firm for fiscal 2008; and
3. To transact such other business as may properly come before the meeting and any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on March 28, 2008 as the record date for the determination of stockholders entitled to notice of and to vote at the annual meeting and any adjournment or postponement thereof.

Please note that we are requiring a form of personal identification and, for beneficial owners, appropriate proof of ownership of our common stock to attend the annual meeting. For more information, please refer to the enclosed proxy statement.

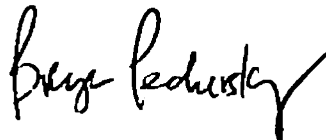
Pursuant to new rules promulgated by the Securities and Exchange Commission (SEC), we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. The enclosed proxy statement and our Form 10-K for the year ended December 31, 2007 (which we are distributing in lieu of a separate annual report to stockholders) are available on our website at *www.harte-hanks.com*, under the heading "About Us" in the section for "Investors." Additionally, and in accordance with new SEC rules, you may access our proxy statement and Form 10-K at *http://www.edocumentview.com/HHS*, which does not have "cookies" that identify visitors to the site.

Most stockholders have a choice of submitting a proxy (1) on the Internet, (2) by telephone or (3) by mail using a traditional proxy card. Please refer to the proxy card or other voting instructions included with these proxy materials for information on the voting methods available to you.

Your vote is important. We urge you to review the accompanying material carefully and to submit your proxy as soon as possible so that your shares will be represented at the meeting.

Thank you for your continued interest and support.

By Order of the Board of Directors,



Bryan J. Pechersky
Senior Vice President, General Counsel and Secretary

San Antonio, Texas
April 11, 2008

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HARTE-HANKS, INC.
200 Concord Plaza Drive, Suite 800
San Antonio, Texas 78216

PROXY STATEMENT

FOR THE ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 13, 2008

This proxy statement is being furnished to you in connection with the solicitation of proxies by the Board of Directors (the Board) of Harte-Hanks, Inc. for use at our 2008 annual meeting. In this proxy statement, references to "Harte-Hanks," the "company," "we," "us," "our" and similar expressions refer to Harte-Hanks, Inc., unless the context of a particular reference provides otherwise. We refer to various websites in this proxy statement. Neither the Harte-Hanks website nor any other website included in this proxy statement is intended to function as a hyperlink, and the information contained on such websites is not a part of this proxy statement.

GENERAL INFORMATION

2008 Annual Meeting Date and Location

Our 2008 annual meeting of stockholders will be held on Tuesday, May 13, 2008 at 8:30 a.m. (Central Time) at the DoubleTree Hotel, 37 NE Loop 410, San Antonio, Texas 78216, or at such other time and place to which the meeting may be adjourned or postponed. References in this proxy statement to the annual meeting also refer to any adjournments, postponements or changes in location of the meeting, to the extent applicable.

Delivery of Proxy Materials

Mailing Date

The approximate date on which this proxy statement and accompanying proxy are first being sent or given to stockholders is April 11, 2008.

Important Notice Regarding Availability of Proxy Materials For Annual Meeting To Be Held On May 13, 2008

Pursuant to new rules promulgated by the Securities and Exchange Commission (SEC), we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. This proxy statement and our Form 10-K for the year ended December 31, 2007 (which we are distributing in lieu of a separate annual report to stockholders) are available on our website at *www.harte-hanks.com*, under the heading "About Us" in the section for "Investors." Additionally, and in accordance with new SEC rules, you may access our proxy statement and Form 10-K at *http://www.edocumentview.com/HHS*, which does not have "cookies" that identify visitors to the site.

Stockholders Sharing an Address

Registered Stockholders — Each registered stockholder (you own shares in your own name on the books of our transfer agent, Computershare Trust Company, N.A.) will receive one copy of each of our proxy statement and annual report on Form 10-K per account even if at the same address.

Street-name Stockholders — Most banks and brokers are delivering only one copy of each of our proxy statement and annual report on Form 10-K to consenting street-name stockholders (you own shares beneficially

in the name of a bank, broker or other holder of record on the books of our transfer agent) who share the same address. This procedure reduces our printing and distribution costs. Those who wish to receive separate copies may do so by contacting their bank, broker or other nominee, or, in most cases, by checking the appropriate box on the voting instruction card sent to them. Similarly, most street-name stockholders who are receiving multiple copies of our proxy statement and annual report on Form 10-K at a single address may request that only a single set of materials be sent to them in the future by checking the appropriate box on the voting instruction card sent to them or by contacting their bank, broker or other nominee. In the alternative, most street-name stockholders may give instructions to receive separate copies or discontinue multiple mailings of materials by contacting the third party that mails annual meeting materials for most banks and brokers: Broadridge, either by calling toll free at (800) 542-1061 or by writing to Broadridge, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. Your instructions must include the name of your bank or broker and your account number.

Electronic Delivery Option

Instead of receiving future copies of these materials by mail, street-name stockholders may have the opportunity to receive copies of the proxy materials electronically. Opting to receive your proxy materials online will save us the cost of producing and mailing documents to your home or business. Please check the information provided in the proxy materials mailed to you by your bank or broker or contact your bank or broker regarding the availability of this service. In addition, the notice of annual meeting, proxy statement and other proxy materials are available on our website at *www.harte-hanks.com* under the heading “About Us” in the section for “Investors.”

Voting

Stockholders Entitled to Vote

The record date for determining the common stockholders entitled to notice of and to vote at the meeting and any adjournment or postponement thereof was the close of business on March 28, 2008, at which time we had issued and outstanding 63,890,655 shares of common stock, which were held by approximately 2,763 holders of record. Please refer to “Security Ownership of Management and Principal Stockholders” for information about common stock beneficially owned by our directors, executive officers and principal stockholders as of the date indicated in such section. Record date stockholders are entitled to one vote for each share of common stock owned as of the record date. For a period of at least ten days prior to the annual meeting, a complete list of stockholders entitled to vote at the annual meeting will be open to the examination of any stockholder for any purpose germane to the meeting, during ordinary business hours at our corporate headquarters located at 200 Concord Plaza Drive, Suite 800, San Antonio, Texas 78216, Attn: Secretary.

Voting of Proxies By Management Proxy Holders

The Board has appointed Mr. Doug Shepard, our Executive Vice President and Chief Financial Officer, and Mr. Bryan Pechersky, our Senior Vice President, General Counsel and Secretary, as the management proxy holders for the annual meeting. Your shares will be voted in accordance with the instructions on the proxy card you submit by mail, or the instructions provided for any proxy submitted by telephone or Internet, as applicable. For stockholders who have their shares voted by duly submitting a proxy by mail, telephone or Internet, the management proxy holders will vote all shares represented by such valid proxies as follows, unless a stockholder appropriately specifies otherwise:

- *Proposal I* (*Election of Directors*) — **FOR** the election of each of the persons named under “Proposal I—Election of Directors” as nominees for election as Class III directors; and
- *Proposal II (Ratification of the Appointment of Independent Auditors)* — **FOR** the proposal to ratify the appointment of KPMG LLP as our independent registered public accounting firm (independent auditors) for fiscal 2008.

As of the date of printing this proxy statement, the Board is not aware of any other business or nominee to be presented or voted upon at the annual meeting. Should any other matter requiring a vote of stockholders properly arise, the proxies in the enclosed form confer upon the person or persons entitled to vote the shares represented by such proxies discretionary authority to vote the same in accordance with their best judgment in the interest of the company. Where a stockholder has appropriately specified how a proxy is to be voted, it will be voted by the management proxy holders in accordance with the specification.

Quorum; Required Votes

The presence at the meeting, in person or by proxy, of the stockholders entitled to cast at least a majority of the votes that all common stockholders are entitled to cast is necessary to constitute a quorum for the transaction of business at the annual meeting. Each vote represented at the meeting in person or by proxy will be counted toward a quorum. Abstentions and broker "non-votes" (which are described below) are counted as present at the annual meeting for purposes of determining whether a quorum is present. If a quorum is not present, the meeting may be adjourned or postponed from time to time until a quorum is obtained.

Under the rules of the New York Stock Exchange (NYSE), brokers holding shares of record for a customer have the discretionary authority to vote on some matters if the brokers do not receive timely instructions from the customer regarding how the customer wants the shares voted. There are also non-discretionary matters for which brokers do not have discretionary authority to vote, even if they do not receive timely instructions from the customer. When a broker does not have discretion to vote on a particular matter and the customer has not given timely instructions on how the broker should vote, a "broker non-vote" results. Although any broker non-vote would be counted as present at the meeting for purposes of determining a quorum, it would be treated as not entitled to vote with respect to non-discretionary matters. For proposals I and II to be voted on at our annual meeting, brokers will have discretionary authority in the absence of timely instructions from their customers.

- *Proposal I* (*Election of Directors*) — To be elected, each nominee for election as a Class III director must receive the affirmative vote of a plurality of the votes of the shares of common stock, present in person or represented by proxy at the meeting and entitled to vote on such proposal. This means that director nominees with the most votes are elected. Votes may be cast in favor of or withheld from the election of each nominee. Votes that are withheld from a director's election will be counted toward a quorum, but will not affect the outcome of the vote on the election of such director.
- *Proposal II (Ratification of the Appointment of Independent Auditors)* — Ratification of the appointment of KPMG LLP as our independent auditors for fiscal 2008 requires the affirmative vote of the holders of a majority of the votes of our common stock present in person or represented by proxy at the meeting and entitled to vote on such proposal. Abstentions may be specified on this proposal and will have the same effect as a vote against this proposal. Although brokers have discretionary authority to vote on this proposal, if a broker submits a "non-vote," it will have the same effect as a vote against this proposal.

Voting Procedures

Registered Stockholders — Registered stockholders may vote their shares or submit a proxy to have their shares voted by one of the following methods:

- *By Mail*. You may submit a proxy by signing, dating and returning your proxy card in the enclosed pre-addressed envelope.
- *By Telephone*. You may submit a proxy by telephone using the toll-free number listed on the proxy card. Please have your proxy card in hand when you call. Telephone voting facilities will close and no longer be available on the date and time specified on the proxy card.
- *By Internet*. You may submit a proxy electronically on the Internet, using the website listed on the proxy card. Please have your proxy card in hand when you log onto the website. Internet voting facilities will close and no longer be available on the date and time specified on the proxy card.

- *In Person*. You may vote in person at the annual meeting by completing a ballot; however, attending the meeting without completing a ballot will not count as a vote.

Street-name Stockholders — Street-name stockholders may generally vote their shares or submit a proxy to have their shares voted by one of the following methods:

- *By Mail*. You may submit a proxy by signing, dating and returning your proxy card in the enclosed pre-addressed envelope.
- *By Methods Listed on Proxy Card*. Please refer to your proxy card or other information forwarded by your bank, broker or other holder of record to determine whether you may submit a proxy by telephone or electronically on the Internet, following the instructions on the proxy card or other information provided by the record holder.
- *In Person with a Proxy from the Record Holder*. A street-name stockholder who wishes to vote in person at the meeting will need to obtain a legal proxy from their bank, broker or other nominee. Please consult the voting form or other information sent to you by your bank, broker or other nominee to determine how to obtain a legal proxy in order to vote in person at the annual meeting.

Revoking Your Proxy

If you are a registered stockholder, you may revoke your proxy at any time before the shares are voted at the annual meeting by:

- timely delivery of a valid, later-dated executed proxy card;
- timely submitting a proxy with new voting instructions using the telephone or Internet voting system;
- voting in person at the meeting by completing a ballot; however, attending the meeting without completing a ballot will not revoke any previously submitted proxy; or
- filing an instrument of revocation received by the Secretary of Harte-Hanks, Inc. at 200 Concord Plaza Drive, Suite 800, San Antonio, Texas 78216, by 5:00 p.m., Central Time, on Monday, May 12, 2008.

If you are a street-name stockholder and you vote by proxy, you may change your vote by submitting new voting instructions to your bank, broker or nominee in accordance with that entity's procedures.

Annual Meeting Admission

If you wish to attend the annual meeting in person, you must present a form of personal identification. If you are a beneficial owner of Harte-Hanks common stock that is held of record by a bank, broker or other nominee, you will also need proof of ownership to be admitted to the meeting. A recent brokerage statement or a letter from your bank or broker are examples of proof of ownership. No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the meeting.

Solicitation Expenses

We will bear all costs incurred in the solicitation of proxies by our Board. In addition to solicitation by mail, our directors, officers and employees may solicit proxies personally or by telephone, e-mail, facsimile or other means, without additional compensation. We may also make arrangements with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of shares of common stock held by such persons, and we may reimburse these brokerage houses and other custodians, nominees and fiduciaries for reasonable expenses incurred in connection therewith.

Copies of the Annual Report

A copy of our annual report on Form 10-K for the year ended December 31, 2007, including the financial statements and the financial statement schedules, if any, but not including exhibits, accompanies this proxy statement and will also be furnished at no charge to each person to whom a proxy statement is delivered upon the written request of such person addressed to Harte-Hanks, Inc., Attn: Secretary, at 200 Concord Plaza Drive, Suite 800, San Antonio, Texas 78216. Our Form 10-K and the exhibits filed with it are available on our website, *www.harte-hanks.com* under the heading "About Us" in the section for "Investors." These materials do not constitute a part of the proxy solicitation material.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 and related rules of the SEC require our directors and officers, and persons who own more than 10% of a registered class of our equity securities, to file initial reports of ownership and reports of changes in ownership with the SEC. These persons are required by SEC regulations to furnish us with copies of all Section 16(a) reports that they file. As with many public companies, we provide assistance to our directors and executive officers in making their Section 16(a) filings pursuant to powers of attorney granted by our insiders. To our knowledge, based solely on our review of the copies of Section 16(a) reports received by us with respect to fiscal 2007, including those reports that we have filed on behalf of our directors and executive officers pursuant to powers of attorney, or written representations from certain reporting persons, we believe that all filing requirements applicable to our directors, officers and persons who own more than 10% of a registered class of our equity securities have been satisfied.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information about our current directors and executive officers. As we have previously announced, Mr. Hochhauser, our former Chief Executive Officer and a member of the Board, retired in February 2008 and will not stand for re-election to the Board at the 2008 annual meeting, when his current term expires. Mr. Dean Blythe, our President and Chief Executive Officer, has been nominated by the Board for election to the Board, filling the seat previously held by Mr. Hochhauser.

Name	Age	Position
David L. Copeland	52	Director (Class I)
William F. Farley	64	Director (Class II)
Larry D. Franklin	65	Director (Class II); Chairman
William K. Gayden	66	Director (Class II)
Christopher M. Harte	60	Director (Class I)
Houston H. Harte	81	Director Nominee (Class III); Vice Chairman
Richard M. Hochhauser	63	Director (Class III until 2008 annual meeting)
Judy C. Odom	55	Director Nominee (Class III)
Dean H. Blythe	49	President, Chief Executive Officer and Director Nominee (Class III)
Peter E. Gorman	59	Executive Vice President and President, Shoppers
Douglas C. Shepard	40	Executive Vice President and Chief Financial Officer
Gary J. Skidmore	53	Executive Vice President and President, Direct Marketing
Bryan J. Pechersky	37	Senior Vice President, General Counsel and Secretary
Jessica M. Huff	47	Vice President – Finance, Controller and Chief Accounting Officer

Class III directors are to be elected at our 2008 annual meeting. Messrs. Houston Harte and Dean Blythe, and Ms. Judy Odom are nominees for election as Class III directors. The term of Class I directors expires at the 2009 annual meeting of stockholders, and the term of Class II directors expires at the 2010 annual meeting of stockholders.

David L. Copeland has served as a director of Harte-Hanks since 1996. He has been employed by SIPCO, Inc., the management and investment company for the Andrew B. Shelton family, since 1980 and currently serves as its president. He also serves as a director of First Financial Bankshares, Inc., a financial holding company.

William F. Farley has served as a director of Harte-Hanks since 2003. He also serves as a director of Wilsons The Leather Experts Inc., a leading retailer of leather apparel and accessories. He served as chairman and chief executive officer of Science, Inc., a medical device company, from 2000 to 2002. He also served as president and chief executive officer of Kinnard Investments, a financial services holding company, from 1997 to 2000. From 1990 to 1996, he served as vice chairman of U.S. Bancorp, a financial services holding company.

Larry D. Franklin has served as a director of Harte-Hanks since 1974. Mr. Franklin was Chief Executive Officer of Harte-Hanks from 1991 until April 2002 and executive Chairman until December 31, 2005.

William K. Gayden has served as a director of Harte-Hanks since 2001. He is chairman and chief executive officer of Merit Energy Company, a private firm specializing in direct investments in oil and gas producing properties, which he formed in 1989.

Christopher M. Harte has served as a director of Harte-Hanks since 1993. He is a private investor and served as president of the Portland Press Herald and Maine Sunday Telegram for approximately two years beginning June 1992. Prior to becoming president of the Portland newspapers, Mr. Harte spent nine years with Knight-Ridder Newspapers, during which time he served as president and publisher of two newspapers and in other positions. He serves as the chairman of Star Tribune Company and currently also serves as chief executive

officer and publisher of the Minneapolis Star Tribune. He also serves as a director of Geokinetics, Inc., a provider of three-dimensional seismic acquisition services to U.S. oil and gas businesses. Mr. Harte is the nephew of director Houston H. Harte.

Houston H. Harte has served as a director of Harte-Hanks since 1952 and served as Chairman of the Board from 1972 until May 1999. Since May 1999, Mr. Harte has served as Vice Chairman of the Board of Harte-Hanks. Mr. Harte is the uncle of director Christopher M. Harte.

Richard M. Hochhauser previously served as our Chief Executive Officer from April 2002 until February 2008 and has served as a director since 1996. From January 1998 until April 2002, he served as our Chief Operating Officer. He also served as President of Harte-Hanks Direct Marketing from 1987 until August 2007, and has held numerous other positions since joining Harte-Hanks in 1975. Mr. Hochhauser also serves as a director of John Wiley & Sons, Inc., a publisher of print and electronic products.

Judy C. Odom has served as a director of Harte-Hanks since September 2003. Since November 2002, she has also served on the board of directors of Leggett & Platt, Incorporated, a diversified manufacturing company. She served on the board of Storage Technology Corporation, a provider of data storage hardware and software products and services, from November 2003 to August 2005. From 1985 until 2002, she held numerous positions, most recently chief executive officer and chairman of the board, at Software Spectrum, Inc., a global business to business software services company, which she co-founded in 1983.

Dean H. Blythe has served as our President since August 2007 and as our Chief Executive Officer since February 2008. From January 2007 to August 2007, he served as our Executive Vice President and Chief Financial Officer. From June 2003 until January 2007, he served as our Senior Vice President and Chief Financial Officer. From November 2001 until February 2004, he served as our Vice President – Legal and Secretary. Prior to joining Harte-Hanks, he served as managing director of TDF Ventures LLC, an investment and transaction advisory firm he founded in 2000. During 2000, he was also senior vice president – corporate development of Concero, Inc., an information technology consulting firm, and from 1994 to 2000 he was senior vice president – corporate development, secretary & general counsel of Hearst-Argyle Television, Inc., an owner and operator of television stations.

Peter E. Gorman has served as our Executive Vice President and President, Shoppers since October 2005, with responsibility for our entire Shoppers division. From 1996 to October 2005, he served as Senior Vice President – Shoppers. He has been with Harte-Hanks since 1979.

Douglas C. Shepard has served as our Executive Vice President and Chief Financial Officer since December 2007. From September 2006 to December 2007, he served as chief financial officer and treasurer of Highmark's vision holding company, HVHC Inc. From November 2004 to December 2007, he served as the executive vice president, chief financial officer, treasurer and secretary of Eye Care Centers of America, Inc. (ECCA). From March 1997 to November 2004, he served as ECCA's vice president of finance and controller. Mr. Shepard joined ECCA in March 1995. Prior to his employment with ECCA, Mr. Shepard served as an SEC reporting accountant at a publicly traded restaurant company and served as a senior auditor at Deloitte & Touche, LLP.

Gary J. Skidmore has served as our Executive Vice President and President, Direct Marketing since August 2007, with responsibility for our entire Direct Marketing division. From January 2007 to August 2007, he served as Executive Vice President – Direct Marketing, where he had responsibility for a portion of our Direct Marketing business units. From 2000 to January 2007, he served as Senior Vice President – Direct Marketing. He previously served as our Vice President – Direct Marketing. He has been with Harte-Hanks since 1994.

Bryan J. Pechersky has served as our Senior Vice President, General Counsel and Secretary since March 2007. Prior to joining Harte-Hanks, he served as senior vice president, secretary and senior corporate

counsel of Blockbuster Inc., a movie and game entertainment retailer. Before joining Blockbuster, from March 2004 until October 2005, he served as deputy general counsel and secretary with Unocal, an international energy company that was acquired by Chevron in 2005, and was in private practice with the law firm of Vinson & Elkins L.L.P. from November 1996 until March 2004.

Jessica M. Huff has served as our Controller since 1996. In 1999, she was also named Chief Accounting Officer. In 2003, she was also named Vice President, Finance. Prior to joining Harte-Hanks, she was corporate manager of financial planning at SBC Communications. Ms. Huff also spent eight years with Ernst & Young and three years as controller and vice president of a financial institution.

CORPORATE GOVERNANCE

We believe that strong corporate governance helps to ensure that our company is managed for the long-term benefit of our stockholders. During the past year, we continued to review our corporate governance policies and practices, the applicable federal securities laws regarding corporate governance, and the corporate governance standards of the NYSE, the stock exchange on which our common stock is listed. This review is part of our continuing effort to enhance corporate governance at Harte-Hanks and to communicate our governance policies to stockholders and other interested parties.

You can access and print, free of charge, the charters of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, as well as our Corporate Governance Principles, Business Conduct Policy, Code of Ethics and certain other polices and procedures at our website at *www.harte-hanks.com* under the heading “About Us” in the section for “Corporate Governance.” Additionally, stockholders can request copies of any of these documents free of charge by writing to the following address:

Harte-Hanks, Inc.
200 Concord Plaza Drive, Suite 800
San Antonio, Texas 78216
Attention: Secretary

From time to time, these governance documents may be revised in response to changing regulatory requirements, evolving best practices and the concerns of our stockholders and other interested parties. We encourage you to check our website periodically for the most recent versions.

Board of Directors and Board Committees

Our business is managed under the direction of our Board. The Board elects the Chief Executive Officer (CEO) and other corporate officers, acts as an advisor to and resource for management, and monitors management’s performance. The Board, with the assistance of the Compensation Committee, also assists in planning for the succession of the CEO and certain other key positions. In addition, the Board oversees the conduct of our business and strategic plans to evaluate whether the business is being properly managed, reviews and approves our financial objectives and major corporate plans and actions, and, through the Audit Committee, reviews and approves significant changes in the appropriate auditing and accounting principles and practices and provides oversight of internal and external audit processes and financial reporting.

The Board meets on a regularly scheduled basis to review significant developments affecting our company, to act on matters requiring approval by the Board and to otherwise fulfill its responsibilities. It also holds special meetings when an important matter requires action or review by the Board between regularly scheduled meetings. The Board met six times and acted by unanimous written consent two times during 2007. Each director participated in at least 75% of all Board meetings and all Board committee meetings of which he or she was a member that were held during the period that he or she served as a director, committee member or both.

The Board has separately designated standing Audit, Compensation and Nominating and Corporate Governance Committees. The following table provides Board and committee membership and meeting information for each of the Board's standing committees:

Director	Independent (1)	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
David L. Copeland	Yes	Chair (2)		
William F. Farley	Yes	Member (2)	Member	
Larry D. Franklin	—			
William K. Gayden	Yes		Member	Member
Christopher M. Harte	Yes	Member		Chair
Houston H. Harte	—			
Richard M. Hochhauser (3)	—			
Judy C. Odom	Yes		Chair	Member
Number of Meetings in 2007		12	5	4
Number of Written Consents in 2007		0	1	0

(1) The Board has determined that the director is independent as described below under "Independence of Directors."

(2) The Board has determined that the director is an audit committee financial expert as described below under "Audit Committee Financial Experts and Financial Literacy."

(3) As we have previously announced, Mr. Hochhauser, our former Chief Executive Officer and a member of the Board, retired in February 2008 and will not stand for re-election to the Board at the 2008 annual meeting, when his current term expires. Mr. Dean Blythe, our President and Chief Executive Officer, has been nominated by the Board for election to the Board, filling the seat previously held by Mr. Hochhauser.

A brief description of the principal functions of each of the Board's three standing committees follows. Notwithstanding the following, the Board retains the right to exercise the powers of any committee to the extent consistent with applicable rules and regulations, and may do so from time to time. For additional information, please refer to the committee charters that are available on our website at *www.harte-hanks.com* under the heading "About Us" in the section for "Corporate Governance."

- *Audit Committee* — The primary function of the Audit Committee is to assist the Board in fulfilling its oversight of (1) the integrity of our financial statements, including the financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance, (2) the qualifications and independence of our independent auditors, (3) the performance of our internal audit function and independent auditors, and (4) our compliance with legal and regulatory requirements.

- *Compensation Committee* — The primary functions of the Compensation Committee are to (1) review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and either as a Committee or together with the other independent directors (as directed by the Board), determine and approve the CEO's compensation level based on this evaluation, (2) review and approve, or make recommendations to the Board (as directed by the Board), with respect to non-CEO officer compensation, incentive-compensation plans and equity-based plans, and (3) review and discuss with management the company's "Compensation Discussion and Analysis" and produce a committee report on executive compensation as required by the SEC to be included in our annual proxy statement or annual report on Form 10-K filed with the SEC.

- *Nominating and Corporate Governance Committee* — The primary functions of the Nominating and Corporate Governance Committee are to (1) develop, recommend to the Board, implement and maintain our company's corporate governance principles and policies, (2) identify, screen and recruit, consistent with criteria approved by the Board, qualified individuals to become Board members, (3) recommend

that the Board select the director nominees for the next annual meeting of stockholders, (4) assist the Board in determining the appropriate size, function, operation and composition of the Board and its committees, and (5) oversee the evaluation of the Board and management.

Director Nomination Process

The Nominating and Corporate Governance Committee (Governance Committee) is responsible for managing the process for the nomination of new directors. The Governance Committee may identify potential candidates for first-time nomination as a director using a variety of sources—recommendations from our management, current Board members, stockholders or contacts in communities served by Harte-Hanks, or by conducting a formal search using an outside search firm selected and engaged by the Governance Committee. During 2007, the Governance Committee retained Spencer Stuart to assist it in identifying and evaluating potential director nominees.

Following the identification of a potential director nominee, the Governance Committee commences an inquiry to obtain sufficient information on the background of a potential new director nominee. Included in this inquiry is an initial review of the candidate with respect to whether the individual would be considered independent under NYSE and SEC rules and whether the individual would meet any additional requirements imposed by law or regulation on the members of the Audit and/or Compensation Committees of the Board. The Governance Committee evaluates candidates for director nominees in the context of the current composition of the Board, taking into account all factors it considers appropriate, including the characteristics of independence, diversity, age, skills, background and experience, financial acumen, availability of service to Harte-Hanks, tenure of incumbent directors on the Board and the Board's anticipated needs.

The Governance Committee will consider potential nominees recommended by our stockholders for the Governance Committee's consideration taking into account the same considerations as are taken into account for other potential nominees. Stockholders may recommend candidates by writing to the Governance Committee in care of our Secretary at Harte-Hanks, Inc., 200 Concord Plaza Drive, Suite 800, San Antonio, Texas, 78216. Our bylaws provide additional procedures and requirements for stockholders wishing to nominate a director for election as part of the official business to be conducted at an annual stockholders meeting, as described further under "Submission of Stockholder Proposals for 2009 Annual Meeting."

Assuming a satisfactory conclusion to the Governance Committee's review and evaluation process, the Governance Committee presents the candidate's name to the Board for nomination for election as a director and/or inclusion in our proxy statement.

Independence of Directors

Annual questionnaires are used to gather input to assist the Governance Committee and the Board in their determinations of the independence of the non-employee directors. Based on the foregoing and on such other due consideration and diligence as it deemed appropriate, the Governance Committee presented its findings to the Board on the independence of (1) David Copeland, (2) William Farley, (3) William Gayden, (4) Christopher Harte and (5) Judy Odom, in each case in accordance with applicable federal securities laws and the rules of the NYSE. The Board determined that, other than in their capacity as directors, none of these non-employee directors had a material relationship with Harte-Hanks, either directly or as a partner, shareholder or officer of an organization that has a relationship with Harte-Hanks. The Board further determined that (1) each such non-employee director is otherwise independent under applicable NYSE listing standards for purposes of serving on the Board, the Audit Committee, the Compensation Committee and the Governance Committee, (2) each such non-employee director satisfies the additional audit committee independence standards under Rule 10A-3 of the SEC and (3) each such non-employee director is financially literate for purposes of serving on our Audit Committee.

When assessing the materiality of a director's relationship with us, if any, the Board considers all known relevant facts and circumstances, not merely from the director's standpoint, but from that of the persons or organizations with which the director has an affiliation, the frequency or regularity of the services, whether the services are being carried out at arm's length in the ordinary course of business and whether the services are being provided substantially on the same terms to us as those prevailing at the time from unrelated parties for comparable transactions. Material relationships can include commercial, banking, industrial, consulting, legal, accounting, charitable and familial relationships. In making its most recent independence determinations, the Board considered the following matters with respect to Mr. Copeland and determined that they do not constitute material relationships with Harte-Hanks or otherwise impair Mr. Copeland's independence as a member of the Board or any of its committees, including the Audit Committee:

- As previously disclosed in our 2007 proxy statement, Mr. Copeland's son is a member of the transactional services group of KPMG LLP, our independent registered public accounting firm. This issue was previously reviewed and discussed by the Board in connection with assessing the continued independence of Mr. Copeland. This review process included discussing with KPMG the nature of their transactional services group and whether there was any relation to KPMG's audit, assurance or tax compliance groups. As a result of this diligence and discussions with KPMG, it was determined that KPMG's transactional services group is a separate and distinct group from KPMG's audit, assurance and tax compliance practice groups. Accordingly, based on the nature of the services provided by the transactional services group and the fact that Harte-Hanks has not purchased such transactional services from KPMG, this matter was not deemed to constitute a material relationship with Harte-Hanks.
- As previously disclosed in our 2007 proxy statement, in accordance with SEC rules, Mr. Copeland has reported, but disclaimed, "beneficial ownership" of more than 10% of our outstanding shares of our common stock that are owned by (1) various trusts for which Mr. Copeland serves as trustee or co-trustee, (2) a limited partnership of which he is an officer of the general partner, and (3) the Shelton Family Foundation, of which he is one of nine directors and an employee. Based on the nature of Mr. Copeland's role with these entities, his absence of any pecuniary interest in these shares and his disclaimer of any beneficial ownership in these shares, this matter is not deemed to constitute a material relationship with Harte-Hanks.

Executive Sessions

Our Corporate Governance Principles provide that the non-management members of the Board will hold regular executive sessions in connection with regular Board meetings to consider issues that they may determine from time to time without the presence of any member of management. If the Chairman of the Board is not a member of management, the Chairman will chair each such session and report any material issues to the full Board. If the Chairman is a member of management, the Chair of the Governance Committee, or if one has not been appointed, the Chair of the Audit Committee, serves as the chairman of the executive sessions. If the non-management directors include directors who are not "independent" under applicable NYSE and SEC rules, then the independent directors will hold an executive session at least once a year. The Chairman of the Board, if an independent director, will chair each such session and report any material issues to the full Board. If the Chairman is not an independent director, the Chair of the Governance Committee, or if one has not been appointed, the Chair of the Audit Committee, serves as the chairman of such sessions.

Audit Committee Financial Experts and Financial Literacy

The Board has determined that Messrs. Copeland, Farley and Christopher Harte, the current members of the Audit Committee, are each financially literate as interpreted by the Board in its business judgment based on applicable NYSE rules, and that Messrs. Copeland and Farley each further qualifies as an audit committee financial expert, as such term is defined in applicable SEC rules.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee of our Board is or has been an officer or employee of the company. All members of the Compensation Committee participate in decisions related to compensation of our executive officers. No interlocking relationship exists between our Board and the board of directors or compensation committee of any other company.

Communications with Non-Management Directors and Other Board Communications

The Board provides a process to enhance the ability of stockholders and other interested parties to communicate directly with the non-management directors as a group, the entire Board, Board committees or individual directors, including the Chairman and chair of any Board committee.

Stockholders and other interested parties may communicate by writing to: Board of Directors – Stockholder Communication, Harte-Hanks, Inc., P.O. Box 1767, San Antonio, Texas 78291. Our independent directors have instructed the Chairman of the Governance Committee to collect and distribute all such communications to the intended recipient(s), assuming he reasonably determines in good faith that such communications do not relate to an improper or irrelevant topic.

Concerns about accounting or auditing matters may be forwarded on a confidential or anonymous basis to the Audit Committee by writing to: Audit Committee, Harte-Hanks, Inc., P.O. Box 1607, San Antonio, Texas 78291 in an envelope labeled "To be opened by the Audit Committee only. Submitted pursuant to Audit Committee's whistleblower policy." These complaints will be reviewed and addressed under the direction of the Audit Committee.

Items unrelated to the duties and responsibilities of the Board, such as mass mailings, business solicitations, advertisements and other commercial communications, surveys and questionnaires, and resumes or other job inquiries, will not be forwarded.

Director Attendance at Annual Meetings

Although we do not have a formal policy regarding director attendance at the annual meeting of stockholders, all directors are encouraged to attend. All directors attended the 2007 annual meeting of stockholders.

Policies on Business Conduct and Ethics

We have established a corporate compliance program as part of our commitment to responsible business practices in all of the communities in which we operate. The Board has adopted a Business Conduct Policy that applies to all of our directors, officers and employees, which promotes the fair, ethical, honest and lawful conduct in our business relationships with employees, customers, suppliers, competitors, government representatives and all other business associates. In addition, we have adopted a Code of Ethics applicable to our Chief Executive Officer and all of our senior financial officers. The Business Conduct Policy and Code of Ethics form the foundation of a compliance program that includes policies and procedures covering a variety of specific areas of professional conduct, including compliance with laws, conflicts of interest, confidentiality, public corporate disclosures, insider trading, trade practices, protection and proper use of company assets, intellectual property, financial accounting, employment practices, health, safety and environment and political contributions and payments.

Both our Business Conduct Policy and our Code of Ethics are available on our website at *www.harte-hanks.com*, under the heading "About Us" in the section for "Corporate Governance." In accordance with NYSE and SEC rules, we currently intend to disclose any future amendments to our Code of Ethics, or waivers from our Code of Ethics for our Chief Executive Officer, Chief Financial Officer and Controller, by posting such information on our website (*www.harte-hanks.com*) within the time period required by applicable SEC and NYSE rules.

Certain Relationships and Related Transactions

The Board has adopted certain policies and procedures relating to its review, approval or ratification of any transaction in which Harte-Hanks is a participant and that is required to be reported by the SEC's rules and regulations regarding transactions with related persons. As set forth in the Governance Committee's charter, except for matters delegated by the Board to the Audit Committee, all proposed related transactions and conflicts of interest should be presented to the Governance Committee for its consideration. If required by law, NYSE rules or SEC regulations, such transactions must obtain Governance Committee approval. In reviewing any such transactions and potential transactions, the Governance Committee may take into account a variety of factors that it deems appropriate, which may include, for example, whether the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party, the value and materiality of such transaction, any affiliate transaction restrictions that may be included in our debt agreements, any impact on the Board's evaluation of a non-employee director's independence or on such director's eligibility to serve on one of the Board's committees and any required public disclosures by Harte-Hanks.

During 2007, in accordance with authority granted by the Board, we purchased common stock from Mr. Houston H. Harte, a member of our Board, as described below:

Date of Purchase	Shares	Price Per Share	Closing Price on Date of Purchase
February 5, 2007	100,000	$26.07	$26.07
March 8, 2007	100,000	$27.73	$27.73

Indemnification of Officers and Directors

Our certificate of incorporation and bylaws require us to indemnify our officers and directors to the fullest extent permitted by the Delaware General Corporation Law. These documents also contain provisions that provide for the indemnification of our directors for third party actions and actions by or in the right of Harte-Hanks that mirror Section 145 of the Delaware General Corporation Law.

Our certificate of incorporation also states that Harte-Hanks has the power to purchase and maintain insurance, at its expense, to protect itself and any such director, officer, employee or agent of Harte-Hanks or another corporation, partnership, joint venture, trust or other enterprise against such expense, liability or loss, whether or not we would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law. We also have and intend to maintain director and officer liability insurance, if available on reasonable terms.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Management Certifications

In accordance with the Sarbanes-Oxley Act of 2002 and SEC rules thereunder, our Chief Executive Officer and Chief Financial Officer have signed certifications under Sarbanes-Oxley Section 302, which have been filed as exhibits to our annual report on Form 10-K for the year ended December 31, 2007. 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 21, 2007.

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the number of shares of our common stock beneficially owned by (1) our "named executive officers," which, for purposes of this proxy statement, refers to the five executive officers included in the Summary Compensation Table below in this proxy statement, (2) each current Harte-Hanks director and each nominee for director, and (3) all current Harte-Hanks directors and executive officers as a group. The following table also sets forth information with respect to the number of shares of common stock beneficially owned by each person known by Harte-Hanks to beneficially own more than 5% of the outstanding shares of our common stock. Except as otherwise noted, (1) the persons named in the table have sole voting and investment power with respect to all shares beneficially owned by them and (2) ownership is as of March 1, 2008. As of March 1, 2008, there were 66,966,063 shares of our common stock outstanding.

Name and Address of Beneficial Owner (1)	Number of Shares of Common Stock	Percent of Class
Houston H. Harte (2)	9,669,873	14.4%
David L. Copeland (3)	9,130,677	13.6%
Larry D. Franklin (4)	6,201,592	9.2%
Cooke & Bieler, LP(5)	5,233,752	7.8%
Shelton Family Foundation	4,591,000	6.9%
BlackRock, Inc. (Subsidiaries: BlackRock Advisors LLC, BlackRock Investment Management, LLC, BlackRock (Channel Island) Ltd.) (6)	4,331,739	6.5%
Goldentree Asset Management LP(7)	3,781,781	5.6%
Christopher M. Harte (8)	1,812,259	2.7%
Richard M. Hochhauser (9)	1,037,909	1.5%
Gary J. Skidmore (10)	381,846	*
Peter E. Gorman (11)	281,098	*
Dean H. Blythe (12)	214,000	*
William K. Gayden (13)	75,020	*
William F. Farley (14)	24,352	*
Judy C. Odom (15)	22,332	*
Douglas C. Shepard (16)	17,835	*
All Executive Officers and Directors as a Group (14 persons) (17)	28,910,560	41.9%

* Less than 1%.

(1) The address of Cook & Bieler, LP is 1700 Market Street, Suite 3222, Philadelphia, PA 19103. The address of the Shelton Family Foundation is 273 Walnut Street, Abilene, Texas 79601. The Address of BlackRock, Inc. is 40 East 52nd Street, New York, NY 10022. The address of Goldentree Asset Management LP is 300 Park Avenue, 21st Floor, New York, N.Y. 10022. The address of each other beneficial owner is c/o Harte-Hanks, Inc., 200 Concord Plaza Drive, Suite 800, San Antonio, Texas 78216.

(2) Includes 3,061,555 shares held by three limited partnerships of which Mr. Harte is the sole shareholder of the general partner, and to which he disclaims beneficial ownership.

(3) Includes 8,150 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 1,937 shares of stock subject to certain restrictions, which restrictions will be removed in January 2009; 1,918 shares of stock subject to certain restrictions, which restrictions will be removed in February 2010; 3,144 shares of stock subject to certain restrictions, which restrictions will be removed in February 2011; and the following shares to which Mr. Copeland disclaims beneficial ownership: 5,650 shares owned by one of his adult children, 31,900 shares held as custodian for unrelated minors, 4,221,471 shares that are owned by 31 trusts for which he serves as trustee or co-trustee, 200,500 shares held by a limited partnership of which he is sole manager of the general partner, and 4,591,000 shares owned by the Shelton Family Foundation, of which he is one of nine directors and an employee.

(4) Includes 303,000 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 1,980,000 shares held in trust for Mr. Franklin's children; and the following shares to which he disclaims beneficial ownership: 3,258,558 shares owned by eight trusts for which he serves as co-trustee and holds shared voting and dispositive power, and 48,405 shares owned by the Franklin Family Foundation of which he is one of four directors.

(5) Represents shares held by investment advisory clients of Cooke & Bieler, LP ("C&B"), no one of which to the knowledge of C&B owns more than 5.0% of the class. Includes shares to which C&B has shared voting power of 2,839,557 shares and shared dispositive power of 5,180,452 shares. Information relating to this stockholder is based on the stockholder's Schedule 13G, filed with the SEC on February 13, 2008.

(6) Represents shares held by investment advisory clients of BlackRock, Inc.'s investment advisory subsidiaries (Subsidiaries: BlackRock Advisors, LLC, BlackRock Investment Management, LLC, and BlackRock (Channel Islands), Ltd.), no one of which to the knowledge of BlackRock owns more than 5.0% of the class. Includes shares to which BlackRock has shared voting and dispositive power of 4,331,739. Information relating to this stockholder is based on the stockholder's Schedule 13G, filed with the SEC on February 8, 2008.

(7) Represents shares held by investment advisory clients of Golden Asset Management LP ("GAM"), no one of which to the knowledge of GAM owns more than 5.0% of the class. Includes shares to which GAM has shared voting and dispositive power of 3,781,781 shares. Information relating to this stockholder is based on the stockholder's Schedule 13G, filed with the SEC on February 14, 2008.

(8) Includes 5,574 shares held as custodian for Mr. Harte's step-children and child; 1,245,001 shares owned by two trusts for which he serves as co-trustee and in which the trustees have shared voting and dispositive power and to which he disclaims beneficial ownership; 450 shares owned indirectly by his wife; 505,458 shares held by Spicewood Family Partners, Ltd., of which he is the sole general partner with exclusive voting and dispositive power over all the partnership's shares; 8,150 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 1,937 shares of stock subject to certain restrictions, which restrictions will be removed in January 2009; 1,918 shares of stock subject to certain restrictions, which restrictions will be removed in February 2010; and 3,144 shares of stock subject to certain restrictions, which restrictions will be removed in February 2011.

(9) Includes 853,000 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 10,700 shares of stock subject to certain restrictions, which restrictions will be removed in January 2009; and 8,500 shares of stock subject to certain restrictions, which restrictions will be removed in February 2010.

(10) Includes 336,250 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 4,115 shares of stock subject to certain restrictions, which restrictions will be removed in January 2009; 4,768 shares of stock subject to certain restrictions, which restrictions will be removed in February 2010; 4,668 shares of stock subject to certain restrictions, which restrictions will be removed in February 2011; and 4,318 shares held in two trusts for which Mr. Skidmore's brother serves as trustee.

(11) Includes 247,500 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 20,040 shares owned indirectly by the Gorman Family Trust; 5,928 shares of stock subject to certain restrictions, which restrictions will be removed in January 2009; 2,755 shares of stock subject to certain restrictions, which restrictions will be removed in February 2010; and 4,000 shares of stock subject to certain restrictions, which restrictions will be removed in February 2011.

(12) Includes 189,375 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 3,200 shares of stock subject to certain restrictions, which restrictions will be removed in January 2009; 4,300 shares of stock subject to certain restrictions, which restrictions will be removed in February 2010; and 7,125 shares of stock subject to certain restrictions, which restrictions will be removed in February 2011.

(13) Includes 8,150 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 13,500 shares owned indirectly by Mr. Gayden's wife; 1,937 shares of stock subject to certain restrictions, which restrictions will be removed in January 2009; 1,918 shares of stock subject to certain restrictions, which restrictions will be removed in February 2010; and 3,144 shares of stock subject to certain restrictions, which restrictions will be removed in February 2011.

(14) Includes 6,900 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 1,937 shares of stock subject to certain restrictions, which restrictions will be removed in January 2009; 1,918 shares of stock subject to certain restrictions, which restrictions will be removed in February 2010; 3,144 shares of stock subject to certain restrictions, which restrictions will be removed in February 2011; and 124 shares owned indirectly by Mr. Farley's spouse, as to which beneficial ownership is disclaimed.

(15) Includes 6,900 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 1,937 shares of stock subject to certain restrictions, which restrictions will be removed in January 2009; 1,918 shares of stock subject to certain restrictions, which restrictions will be removed in February 2010; and 3,144 shares of stock subject to certain restrictions, which restrictions will be removed in February 2011.

(16) Includes 4,335 shares of stock subject to certain restrictions, which restrictions will be removed in December 2008; and 7,500 shares of stock subject to certain restrictions, which restrictions will be removed in December 2010.

(17) Includes 1,989,875 shares that may be acquired upon the exercise of options exercisable within the next 60 days and 122,579 shares of stock subject to certain restrictions, which restrictions will be removed at various times in December 2008, January 2009, March 2010, February 2010, December 2010 and February 2011.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis (CD&A) provides a discussion of the compensation philosophy and objectives that underlie our executive compensation program and how we evaluated and set our executives' compensation for 2007. This CD&A provides qualitative information concerning how 2007 compensation was awarded to and earned by our executives, identifies the most significant factors relevant to our 2007 executive compensation decisions and gives context to the data presented in the tables included below in this proxy statement. Certain information regarding our 2006 and 2008 compensation determinations is also included to the extent we believe it provides helpful context for our discussion of 2007 executive compensation. The term "executive officers" means our senior executives who are all listed above under the heading "Directors and Executive Officers." The term "named executive officers" means the five executive officers named in the Summary Compensation Table and other compensation tables that follow. "Committee" means the Compensation Committee of the Board.

Overview of 2007 Executive Compensation Developments

In 2007, the principal compensation developments for our named executive officers were as follows:

- *January 2007* — The Committee made its annual executive compensation determinations for our 2007 executive compensation program. The determinations for Mr. Dean Blythe and Mr. Gary Skidmore took into consideration their January 2007 promotions from Senior Vice President to Executive Vice President.
- *July/August 2007* — Mr. Dean Blythe was promoted from Executive Vice President and Chief Financial Officer to President and Chief Financial Officer in connection with the then-announced retirement of Mr. Richard Hochhauser, who retired as our Chief Executive Officer in February 2008. Mr. Blythe received a base salary adjustment and an award of stock options in connection with his promotion.
- *July/August 2007* — Mr. Gary Skidmore was promoted to Executive Vice President and President, Direct Marketing, with responsibility for our entire Direct Marketing business. Mr. Skidmore previously had responsibility for managing a portion of our Direct Marketing business units. Mr. Skidmore received a base salary adjustment and an award of stock options in connection with his promotion.
- *August 2007* — We entered into a transition and consulting agreement with Mr. Hochhauser, pursuant to which he agreed to serve as a consultant to the company for three years commencing with his February 2008 retirement, and will receive consulting payments and other benefits.
- *December 2007* — We hired Mr. Doug Shepard as Executive Vice President and Chief Financial Officer and, in connection with his hiring, the Committee approved Mr. Shepard's compensation package.

Executive Compensation Philosophy and Objectives

Our executive compensation program is designed to achieve a number of key objectives and thereby support our overall efforts to create long-term value for our stockholders:

- *Attract and Retain Top Talent* — Attract and retain high performing individuals who will significantly contribute to our long-term success and the creation of stockholder value by providing competitive compensation compared to peer companies or companies in the same market for executive talent.
- *Pay for Performance* — Motivate our executives to work in the best interests of our stockholders by closely tying compensation to company, business unit (for certain executive officers, as appropriate) and individual performance on both a short-term and long-term basis.
- *Place Significant Portion of Pay "At Risk"* — Align executive compensation with stockholder interests by placing a significant portion of total direct compensation "at risk," such that the executive will not realize value unless company performance goals are achieved (for annual bonuses and performance restricted stock units) or our stock price appreciates (for stock options).

- *Require Significant Ongoing Executive Stock Ownership* — Align executive and stockholder interests by including a significant equity component in our total compensation awards and by requiring executives to accumulate and maintain a sizeable equity position through our stock ownership guidelines.

We believe our compensation philosophy has assisted in achieving our goals. The Committee reviews our compensation philosophy on a periodic basis to judge whether the goals and objectives are being met, and what, if any, changes may be needed to the philosophy. The Committee considered our compensation philosophy and objectives in establishing the elements and amounts of 2007 compensation for each of our named executive officers. Our 2007 compensation philosophy is consistent for all of our executive officer positions, and is consistent with our 2006 and 2008 compensation programs.

Elements of 2007 Executive Compensation Program

The following table highlights the elements of our 2007 executive compensation program and the primary purpose of each element. These compensation elements are consistent with our 2006 and 2008 executive compensation programs, and, although individual amounts vary, the elements are also consistent for all of our executive officer positions. Each element is discussed in further detail below in this CD&A.

Element	Objectives and Basis	Form
Base Salary	Provide base compensation that is competitive for each role to reward and motivate individual performance.	Cash
Annual Incentive Compensation (also referred to in this proxy statement as our "bonus")	Annual incentive to drive company and, where applicable, business unit performance.	Cash
Bonus Restricted Stock Elections	Annual eligibility of executive officers to elect to receive up to 30% of their bonus awards in the form of restricted common stock, which would vest 100% on the third anniversary of the date of grant, allowing an executive officer to receive 125% of the value of the forgone cash portion of his or her bonus in such shares of restricted stock.	Restricted stock
Long-Term Incentive Awards	Long-term incentive to drive company performance and align executives' interests with stockholders' interests and to retain executives through long-term vesting and potential wealth accumulation.	Stock options, restricted stock and performance restricted stock units
Perquisites	Enhance the competitiveness of our executive compensation program through limited additional benefits.	Automobile allowances and supplemental life insurance benefits
Pension and Retirement	Provide our executives with a competitive retirement income program to supplement savings through our 401(k) plan.	Participation and vesting in our non-qualified pension restoration plan

Element	Objectives and Basis	Form
Severance Agreements	Attract and retain key talent by providing certain compensation in the event of a change of control and, for one of our named executive officers, in designated non-change of control scenarios.	Cash severance, equity vesting, COBRA reimbursement and, if applicable, tax gross-ups
Qualified Deferred Compensation	Provide tax-deferred means to save for retirement.	Same benefit made generally available to our employees to participate in our 401(k) plan with a company match
Other	Offer other competitive benefits, such as medical, dental and other health and welfare benefits.	Same benefit made generally available to our employees to participate in health and welfare plans

Compensation Committee

The Committee currently consists of Judy Odom (Chair), William Farley and William Gayden. The Board has determined that each member of the Committee meets the independence requirements of the rules of the NYSE. Each Committee member is also considered to be an "outside director" in accordance with Section 162(m) of the Internal Revenue Code (the Code), and a "non-employee director" as defined in Rule 16b-3 under the Exchange Act with regard to compensation and benefit plans subject to SEC Rule 16b-3. Each member of the Committee either currently serves or has served as a senior executive of a large corporation, and has had significant experience with compensation matters relating to senior executives of these organizations.

In accordance with its charter, the Committee's responsibilities include the following:

- participate with management and the Board of Directors in reviewing and approving the company's goals and objectives with respect to compensation for our CEO,
- evaluate the CEO's performance in light of these established goals and objectives and, based upon these evaluations, set the CEO's annual compensation, including salary, bonus and incentive and equity-based compensation,
- review publicly available data to assess the competitiveness of the CEO's base salary, bonus and incentive and equity-based compensation, taking into consideration our performance and relative stockholder return, the value of similar incentive awards to CEOs at comparable companies, and the awards given to the CEO in prior years,
- participate with management and the Board of Directors in reviewing the annual goals and objectives with respect to compensation for other executive officers,
- evaluate the performance of these executive officers in light of these established goals and objectives and, based upon this evaluation and any compensation recommendations for the executive officers made by the CEO, either approve or make recommendations to the Board (as directed by the Board) with respect to the compensation for the executive officers, and
- review publicly available data to assess our competitive position with respect to our executive compensation program, including consideration of base salaries, annual incentives, long-term incentives and equity-based compensation, and make changes as deemed appropriate to align with our executive compensation philosophy.

The Committee may appoint subcommittees for any purpose that it deems appropriate and may delegate to subcommittees such power and authority as it deems appropriate. However, no subcommittee may consist of fewer than two members, and no subcommittee may be delegated any power or authority required by any law, regulation or listing standard to be exercised by the Committee as a whole. No subcommittees were formed or met in 2007. The Committee has delegated to our President and CEO limited option grant authority for non-officer new hires and promotions. This delegation does not apply to any of our executive officers.

The Committee meets in executive session as it deems appropriate to review and consider executive compensation matters without the presence of our executive officers. These executive sessions frequently include other non-employee directors. The Committee met in executive session with other non-employee directors at its January 2007 regular meeting, which is the meeting when the Committee made its annual 2007 executive compensation determinations. Members of the Committee also met in executive session with other non-employee directors during a July 2007 meeting, when the Committee approved the base salary increases and option awards for Messrs. Blythe and Skidmore in connection with their promotions. In the July 2007 executive session, the independent directors also approved Mr. Hochhauser's transition and consulting agreement, which was entered into in connection with the announcement of his February 2008 retirement.

Other Participants in the Executive Compensation Process

In addition to the Committee and other non-Committee members of the Board who may also be in attendance at the Committee's meetings, our management and, when engaged by the Committee from time to time, outside compensation consultants also participate in and contribute to our executive compensation process. Ultimately, the Committee exercises its independent business judgment with respect to recommendations and opinions of these other participants and the Committee (or our independent directors as a group) makes final determinations about our executive officer compensation.

Management and Chairman of the Board

Mr. Hochhauser, our former CEO and a director, and Mr. Blythe, our current President and CEO, each participated in the Committee's executive compensation processes during 2007. Messrs. Hochhauser and Blythe played an important role in assisting the Committee and regularly attended Committee meetings, other than executive sessions. Messrs. Hochhauser and Blythe provided their perspectives to the Committee regarding executive compensation matters generally and the performance of the executive officers reporting to them. They also presented recommendations to the Committee on the full range of annual executive compensation decisions, including (1) annual incentive bonus plan structure and participants, (2) long-term incentive compensation strategy, (3) competitive positioning of our executive compensation program, and (4) total direct compensation for each executive officer, including base salary adjustments, bonus opportunity targets and equity grants. Messrs. Hochhauser and Blythe did not make recommendations regarding their own compensation.

Mr. Larry Franklin, who serves as Chairman of the Board and was our CEO prior to Mr. Hochhauser becoming our CEO in 2002, assisted the Committee and other independent directors in making 2007 executive compensation determinations regarding Mr. Hochhauser and Mr. Blythe.

At the Committee's January 2007 meeting, Mr. Hochhauser presented the Committee with specific 2007 compensation recommendations for the compensation amounts and elements of all executive officers other than himself. Mr. Franklin, Chairman of the Board, presented the Committee with specific 2007 compensation recommendations for Mr. Hochhauser. The Committee made final decisions about each officer's 2007 compensation without the applicable executive officer being present, taking into account Mr. Hochhauser's recommendations for executive officers other than himself and Mr. Franklin's recommendations for Mr. Hochhauser. At a July 2007 meeting, Mr. Franklin provided the Committee and other independent directors with recommendations regarding the terms of Mr. Hochhauser's transition and consulting agreement and regarding the base salary increases and option awards for Messrs. Blythe and Skidmore in connection with their

promotions. In December 2007, Mr. Blythe provided the Committee with his recommendations regarding the compensation elements and amounts for Mr. Shepard, who joined Harte-Hanks in December 2007 as our Executive Vice President and Chief Financial Officer.

Compensation Consultants

The Committee believes that engaging a consultant on a periodic basis is more appropriate than having annual engagements. The Committee did not engage a compensation consultant for its 2007 annual executive compensation determinations, which were made at the Committee's January 2007 meeting. Rather, our former CEO's and Chairman's recommendations at that meeting included market data that was derived by "aging" data provided by a compensation consultant engaged by the Committee in 2004.

In mid-2007, the Committee retained an outside compensation consultant to assist the Committee with its evaluation and determinations for our 2008 executive compensation program. The consulting firm, Longnecker & Associates, was engaged by and reported directly to the Committee. Although Longnecker & Associates did work in cooperation with management as required to gather information necessary to carry out its obligations to the Committee, Longnecker did not have a separate engagement with our management.

The Committee asked Longnecker & Associates to conduct a comprehensive review of Harte-Hanks' current management compensation program and individual management compensation arrangements. The Committee also requested Longnecker & Associates to recommend specific changes and improvements to the Committee to ensure that compensation remains aligned with the goal of enhancing stockholder value through competitive programs that allow the company to attract, properly motivate and retain key executives who will contribute to Harte-Hanks' long-term success and the creation of stockholder value. Longnecker & Associates' review included the following, at the Committee's request:

- review the peer group of companies used for benchmarking executive compensation, taking into account input from the Committee,
- based on compensation data from the peer group and broad market survey data, conduct an analysis of total direct compensation, and the individual components of total direct compensation, for each of our executive positions and assess how target and actual compensation positioning to the market aligned with Harte-Hanks' compensation philosophy and objectives,
- advise the Committee on best practices and compensation trends for its 2008 compensation decisions for the CEO and other executive officers, and
- help the Committee evaluate the new hire compensation package for Doug Shepard, who was hired in December 2007, by providing market data for similar positions.

In January 2008, the Committee made its 2008 annual executive compensation determinations, taking into account the results of Longnecker's review, analysis and recommendations, among other factors. The Committee has not yet determined whether it will engage an outside consulting firm during 2008 for the Committee's 2009 executive compensation determinations.

Principal Factors That Influenced 2007 Executive Compensation

When making its 2007 compensation decisions, the Committee considered the compensation philosophy and principles that underlie our executive compensation program, including the desire to link executive compensation to annual and long-term performance goals and to be able to attract and retain high performing individuals who will significantly contribute to our long-term success and the creation of stockholder value. The Committee did not use pre-established formulas, rigidly set the compensation of our executives based solely on market data or on any one factor in isolation, or assign a specific weighting or ranking to the various factors it considered. Rather, the Committee's ultimate decisions were influenced by a number of factors that were collectively taken

into consideration in the Committee's business judgment and that included a number of subjective determinations. In establishing the individual elements and amounts of 2007 executive compensation, the principal factors taken into consideration by the Committee included the following:

- competitive market data to assess how our executive pay levels compared to other companies, considering the individual elements of our compensation program, the relative mix of those compensation elements and total direct compensation amounts, with 2007 market data derived by "aging" data previously provided by the Committee's consultants in 2004,
- recommendations and input from non-Committee members of the Board, including our Chairman, Mr. Franklin, and from Messrs. Hochhauser and Blythe, including with regard to proposed base salary increases and long-term incentive awards and individual executive officer performance,
- recent company performance compared to our financial (earnings per share, operating income and revenues) and operational expectations for our company as a whole and for our Shoppers and Direct Marketing businesses individually,
- a general assessment of individual executive officer performance and contributions in support of our strategies, individual officer responsibilities, tenure and experience in his or her position and the overall financial performance of the businesses or functional areas for which an officer is responsible,
- CEO succession planning considerations in light of Mr. Hochhauser's February 2008 retirement,
- providing competitive compensation to reflect new or expanded roles for some of our executives, including the promotions of Messrs. Blythe and Skidmore and our hiring of Mr. Shepard,
- retention concerns in light of the relatively low bonus payouts to executive officers based on company performance, challenging business conditions, reduced historical equity compensation values because of a reduced stock price during much of 2007 and recent earnings per share performance, and cost-cutting initiatives and restructuring efforts that resulted, and were anticipated to result in the future, in significant additional work commitments by our existing executive officers,
- individual officer compensation history, including stock options and other equity awards in prior years and value realized from prior equity awards,
- internal pay equity (*i.e.*, considering pay for similar jobs and jobs at different levels within Harte-Hanks and considering the relative importance of a particular position to Harte-Hanks), and
- tax and regulatory considerations, including our policy to take reasonable and practical steps to maximize the tax deductibility of compensation payments to executives under Section 162(m) of the Code, the impact of expensing equity grants under Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment" (SFAS 123R), and the impact of Section 409 of the Code relating to non-qualified deferred compensation.

Tally Sheets

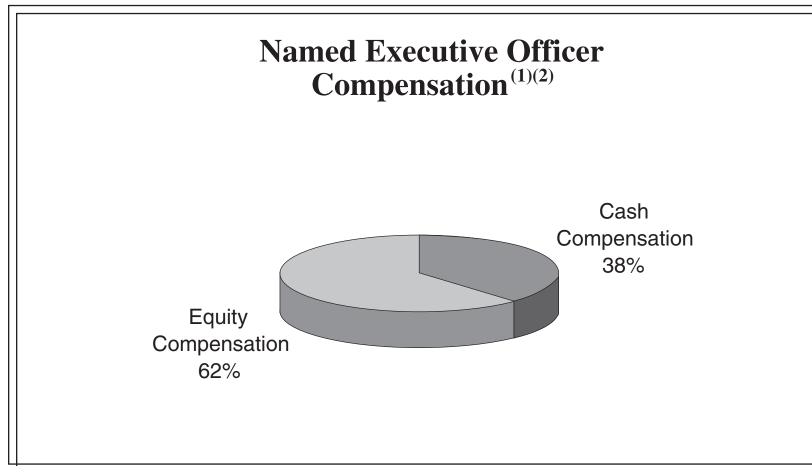
To assist the Committee in making its 2007 annual executive compensation determinations, the Committee reviewed tally sheets for each executive officer, as it has done in prior years. Tally sheets are used as a reference to ensure that Committee members understand the total compensation provided to executives each year, over a multi-year period and in various change of control or other termination events. The Committee uses tally sheets to consider individual elements of our compensation program, the relative mix of those compensation elements and total annual and long-term compensation amounts provided to a particular executive. The tally sheets illustrate, for each executive officer: (1) values for cash compensation (base pay, bonus and automobile allowance) for the current year under consideration and each of the past two years, (2) estimated values for long-term incentive awards (options, restricted stock and performance restricted stock units) for the current year under

consideration and each of the past two years, (3) supplemental life insurance benefits, (4) estimated pension benefits upon retirement, (5) actual realized and estimated future values for historical equity compensation awards, (6) stock ownership guideline compliance, and (7) estimated amounts the executive could realize upon a change of control or other termination of employment pursuant to the executive's existing severance agreement. The tally sheets also incorporate applicable competitive market compensation data for base salary, annual incentive awards and long-term incentive awards.

Setting the Pay Mix—Cash Versus Equity; At-Risk Versus Fixed

We believe a mixture of both long-term (equity) and short-term (cash) compensation elements provides the proper balance and incentives. The Committee reviews each of these elements separately and then all of the elements combined to determine the amount and mix of compensation for our executives. The following chart shows the split of 2007 compensation for our named executive officers between equity and cash:

2007 Cash Versus Equity Compensation

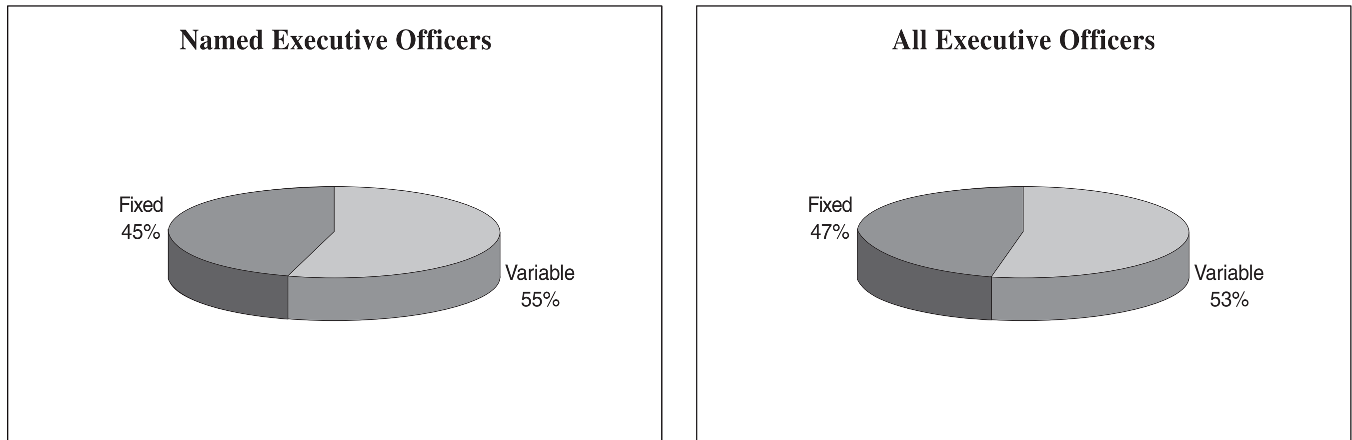


(1) This chart was created using the sum of the amounts in columns (c) (salary) and (g) (non-equity incentive plan compensation) from the Summary Compensation table below as the amount of 2007 cash compensation, and using the sum of the amounts in column (l) (grant date fair value of stock and option awards) from the Grants of Plan Based Awards table below as the amount of 2007 equity compensation. It does not include the amount in column (d) (bonus) from the Summary Compensation table, which was a one-time payment of $150,000 in cash that Mr. Shepard received on his start date.

(2) For our individual named executive officers, their 2007 cash to equity compensation ratios (calculated as described in footnote (1) above) were as follows: Hochhauser — 65.30% cash / 34.70% equity; Blythe — 27.42% cash / 72.58% equity; Gorman — 59.85% cash / 40.15% equity; Shepard — 0.28% cash / 99.72% equity; and Skidmore — 30.12% cash / 69.88% equity. Individual circumstances and other factors may cause significant fluctuations in these percentages from year to year, thereby affecting their year-to-year comparability. For example, Messrs. Blythe and Skidmore were each promoted in August 2007 and received additional option awards in connection with their promotions. In addition, Mr. Shepard was hired in December 2007 and received an initial equity grant on his start date but did not earn a full year of 2007 base salary.

The Committee also believes that a substantial portion of the potential cash compensation (the sum of base salary and the potential annual incentive compensation) should be "at risk" or variable and therefore subject to meeting financial performance criteria. In 2007, as shown below, over half of the potential cash compensation (assuming a maximum bonus payout) for the named executive officers and all executive officers as a group was "at risk."

Percentage of 2007 Potential Cash Compensation: Fixed vs. Variable (or "At Risk") (1)(2)



(1) These charts reflect the overall ratio of 2007 base salary (fixed) to 2007 potential annual incentive compensation (at risk or variable) assuming a maximum bonus payout for the executive officers.

(2) For our individual named executive officers, their percentages of 2007 at risk or variable cash compensation (calculated as described in footnote (1) above) were as follows: Hochhauser — 55.56%; Blythe — 55.99%; Gorman — 49.30%; Shepard — 41.60%; and Skidmore — 55.85%. Individual circumstances and other factors may cause significant fluctuations in these percentages from year to year, thereby affecting their year-to-year comparability.

Market Benchmarking

The Committee typically refers to executive compensation surveys and other benchmark data when it reviews and approves executive compensation. This market data is intended to reflect compensation levels and practices for executives holding comparable positions at other comparable companies, which helps the Committee set compensation at levels designed to attract and retain high performing individuals. Market data typically consists of (1) publicly available data from a selected group of peer companies, and (2) more broad-based, aggregated survey data of a large number of companies of similar size or in similar industries. The market data comprising aggregated survey data does not include the identity of the individual comparable companies and is either provided by outside compensation consultants or derived by aging information that has been previously provided by these consultants. For the Committee's 2004 compensation consultant study, the broad survey data was derived from the consulting firm's executive compensation report, which included data from more than 550 companies across a wide array of industries. For the Committee's 2007 Longnecker & Associates study, the broad survey data was derived from published surveys, including printing and publishing industry segment data from those surveys.

In selecting the peer companies, the Committee considers a variety of criteria, including industry, revenues, market capitalization and assets. The Committee also believes that it is important to include a sufficient number of peer group companies to enhance the overall comparability of the peer company data for purposes of setting our executives' compensation. In connection with its engagement of outside compensation consultants in 2007, the Committee recently modified and expanded the peer group used for 2008 executive compensation. The

following table shows a comparison of the peer group used for the Committee's January 2007 and January 2008 annual compensation determinations. The 2007 compensation peer group was based on the Committee's previous engagement of a compensation consulting firm in 2004.

2007 Compensation Peer Group	2008 Compensation Peer Group
1. Acxiom Corporation	1. Acxiom Corporation
2. ADVO, Inc.	--
--	2. Alliance Data Systems Corporation
3. Catalina Marketing Corporation	3. Catalina Marketing Corporation
4. ChoicePoint, Inc.	4. ChoicePoint, Inc.
--	5. Consolidated Graphics, Inc.
5. Convergys Corporation	--
6. DoubleClick Inc.	--
7. Equifax, Inc.	6. Equifax, Inc.
8. Fair Isaac Corporation	7. Fair Isaac Corporation
--	8. ICT Group, Inc.
--	9. infoUSA, Inc.
--	10. Interpublic Group of Companies, Inc.
--	11. PC Mall, Inc.
--	12. R.H. Donnelley Corporation
--	13. Source Interlink Companies, Inc.
--	14. Sykes Enterprises, Incorporated
--	15. TeleTech Holdings, Inc.
9. The Dun & Bradstreet Corporation	16. The Dun & Bradstreet Corporation
10. Valassis Communications, Inc.	17. Valassis Communications, Inc.
--	18. ValueClick, Inc.
--	19. Viad Corp
11. West Corporation	--

The Committee compares each executive officer's (1) salary, (2) potential bonus opportunity and (3) estimated long-term incentive compensation value, both separately and in the aggregate, to amounts paid for similar positions based on the benchmark data. In looking at overall compensation for our executive officers, in general, the Committee's philosophy is to target total direct compensation in the 50th to 75th percentile of market compensation (in other words, compensation levels that would be in the second quartile of market compensation levels based on this benchmark data). As discussed above, however, the benchmark data is merely a starting point and the Committee does not use pre-established formulas or rigidly set the compensation of our executives based solely on market data or on any one factor in isolation. Rather, the Committee's ultimate determinations are influenced by a number of factors that are collectively taken into consideration in the Committee's business judgment, as further described above under "Principal Factors That Influenced 2007 Executive Compensation." Accordingly, the Committee retains discretion to award compensation levels and elements that it believes are appropriate, and the Committee is not required to award compensation levels at specific benchmark data percentiles.

Although the Committee did not engage a compensation consultant for its 2007 annual executive compensation determinations, our former CEO's recommendations for other executive officers and our Chairman's recommendations for the former CEO in January 2007 included market data that was derived by "aging" data provided by a compensation consultant engaged by the Committee in 2004. This market data incorporated broad aggregated survey data and peer company data from the 2007 compensation peer group companies listed above. Based on the total potential direct compensation approved in the Committee's January 2007 meeting for our named executive officers (other than Mr. Shepard, who was hired in December 2007) compared to the aged market data reviewed by the Committee at its January 2007 meeting, two of the named executive officers were above the 75th percentile, one was between the 50th and 75th percentiles and one was

below the 50th percentile. Total potential direct compensation includes: (1) salary, (2) potential bonus opportunity at a maximum payout assuming all performance criteria are achieved, and (3) an estimated long-term incentive compensation value included in the Committee's tally sheets. Restricted stock and performance restricted stock units were given an assumed value of $27.50 per share. Stock options were given a value based on a Black Scholes value of $8.05. All equity values assumed 100% vesting.

Additional Analysis of Executive Compensation Elements

The following discussion provides additional information and analysis regarding the specific elements of our 2007 executive compensation program. This discussion should be read in conjunction with the remainder of this CD&A (including the section above, "Principal Factors That Influenced 2007 Executive Compensation") and the compensation tables that follow.

Base Salary

We set executive base salaries at levels we believe are competitive based on each individual executive's roles and responsibilities and experience in his or her position. We believe that a competitive base salary, providing a fixed level of income over a certain period, is a necessary and important element to include in the compensation packages for our executives. We review base salaries for executive officers on an annual basis, and at the time of hire, promotion or other change in responsibilities. Base salary changes also impact target bonus amounts, which are based on a percentage of base salary.

When reviewing each executive's base salary in 2007, the Committee considered the level of responsibility and complexity of the executive's job, the relative importance of the executive's position to Harte-Hanks, whether, in the Committee's business judgment and taking into account input from our CEO, Chairman and other Board members, prior individual performance was particularly strong or weak (for all executives other than Mr. Shepard, who was a new employee in 2007), how the executive's salary compares to the salaries of other Harte-Hanks executives and to the 50th percentile and 75th percentile market salary information based on benchmark data for the same or similar positions, and the combined potential total direct compensation value of an executive's salary, annual bonus opportunity and long-term incentive awards.

In 2007, the Committee increased the base salaries of Messrs. Blythe and Skidmore as a result of their two promotions in January 2007 and in August 2007 and the resulting increase in their responsibilities. In setting the amount of Mr. Blythe's increased salary beginning with his August 2007 promotion to President, the Committee took into consideration Mr. Hochhauser's salary history and tenure as CEO and the Committee's expectation that it would again increase Mr. Blythe's salary in January 2008 in connection with Mr. Blythe's transition into the additional role of CEO in February 2008. In January 2008, the Committee approved the increase in Mr. Blythe's annual base salary from $600,000 to $675,000. The amount of Mr. Skidmore's base salary increase beginning with his August 2007 promotion was driven by the relative roles and scope of responsibilities of Messrs. Blythe and Skidmore and the expectation that Mr. Skidmore would not receive another salary increase in January 2008. In January 2008, the Committee elected to maintain Mr. Skidmore's current base salary of $540,000 per year. The base salaries of Messrs. Hochhauser and Gorman were not increased in 2007 from 2006 levels. Mr. Shepard's base salary was established by the Committee in connection with his hiring in December 2007, taking into account the salary history of Mr. Blythe when he formerly served as our Chief Financial Officer, benchmark salary data provided as part of the Committee's engagement of Longnecker & Associates and Mr. Shepard's salary at his previous job.

Annual Incentive Compensation

We provide an annual incentive bonus opportunity for executive officers to drive company and, where appropriate, business unit performance on a year-over-year basis. We believe this annual short-term cash incentive opportunity provides an incentive for our executives to manage our businesses to achieve targeted financial results. For our fiscal 2007 executive bonus plan, maximum bonus opportunity amounts were expressed as a percentage of each executive's base salary as follows:

Position	Maximum Bonus Opportunity (% of 2007 Base Salary)
Hochhauser	125
Blythe	100
Gorman	100
Shepard	100
Skidmore	100

As a result of the January 2007 promotions of Messrs. Blythe and Skidmore from Senior Vice President to Executive Vice President, their 2007 maximum bonus opportunity percentages were increased from 85% to 100% of their 2007 base salaries. In January 2008, Mr. Blythe's 2008 bonus opportunity was increased to 125% of his 2008 base salary as a result of his promotion to CEO. There was no change in the bonus opportunity percentages for Messrs. Hochhauser or Gorman from 2006 to 2007. Mr. Shepard joined Harte-Hanks in December 2007 and therefore has not had any adjustments to his maximum bonus opportunity percentage.

Actual annual incentive compensation awards for our executive officers are determined based on achievement against the Committee's previously established financial performance goals, as certified by the Committee, typically at its regular January meeting. From time to time, individual non-financial goals may also be established for one or more executive officers to better align an executive's incentives with goals such as organizational effectiveness, strategic focus, and personal development. There were no individual non-financial performance goals for the 2007 executive bonus plan. The financial performance goals are based on the strategic financial and operating performance objectives for our company and those of our business segments. In setting the financial performance targets, the Committee considers target company performance under our annual operating and long-term strategic plans, the potential payouts based on achievement at different levels and whether the portion of incremental earnings paid as bonuses rather than returned to stockholders or reinvested in our business is appropriate. The Harte-Hanks 2005 Omnibus Incentive Plan (2005 Plan), a stockholder approved plan, forms the basis of our annual incentive plan for executives.

For 2007, each named executive officer's annual bonus potential was based on achievement against established incremental target performance levels for the following financial performance criteria, each of which was weighted for a particular executive to reflect the nature of that executive's areas of responsibility and focus:

Named Executive Officer	Harte-Hanks Earnings Per Share	Harte-Hanks Operating Income	Shoppers Revenue	Shoppers Operating Income	Direct Marketing Revenue	Direct Marketing Operating Income	Specific Business Unit Revenue/Operating Income	Other
Hochhauser	✓	✓	✓	✓	✓	✓		
Blythe	✓	✓	✓	✓	✓	✓		
Gorman	✓	✓	✓	✓				(1)
Shepard	✓	✓	✓	✓	✓	✓		
Skidmore	✓	✓			✓	✓	✓	(2)

(1) Shoppers digital revenue performance.

(2) Direct Marketing sales organization revenue growth.

The bonus amount ultimately paid to each executive for 2007, if any, was based on the target performance levels reached. Although our 2005 Plan provides the Committee with the ability to reduce, but not to increase, the amount payable to our named executive officers to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance, no discretion was exercised by the Committee in certifying 2007 bonus payouts for the named executive officers.

In establishing the performance criteria and the incremental target performance levels for each performance criteria, it is anticipated that the executives will receive at least some portion of their year-end cash bonuses, with increasing degrees of difficulty in achieving the higher levels of payout. Achieving the maximum bonus award is anticipated, at the time of establishing the award, to be very difficult to achieve based on our company's annual budget performance assumptions. To illustrate the degree of difficulty in achieving bonus payouts, the following table shows the 2007 and 2006 actual bonus payouts as a percentage of each named executive officer's maximum bonus opportunity.

Named Executive Officer	2006 Actual Bonus Payout (as a % of 2006 maximum bonus opportunity)	2007 Actual Bonus Payout (as a % of 2007 maximum bonus opportunity)
Hochhauser	14.00%	0.00%
Blythe	14.00%	0.00%
Gorman	4.50%	0.00%
Shepard (1)	N/A	0.00%
Skidmore	11.25%	5.25%

(1) Mr. Shepard joined Harte-Hanks in December 2007 and was not a participant in our 2006 executive annual incentive plan.

Bonus Restricted Stock Elections

Our executive officers can elect to receive a portion of their bonus otherwise earned in the form of restricted stock. In that case, the executive would receive 125% of the value of the forgone cash portion of the bonus in shares of restricted stock. These shares vest 100% on the third anniversary of their date of grant. This election option is considered by the Committee each year and was approved again with respect to the 2007 executive bonuses, which were payable in early 2008. The Committee believes this election encourages the accumulation of executive stock ownership, as required by our stock ownership guidelines. Most executive officers made bonus restricted stock elections for their 2007 bonuses.

Long-Term Incentive Awards

We design our long-term incentive compensation program to drive company performance over a multi-year period, align the interests of executives with those of our stockholders and retain executives through long-term vesting and wealth accumulation. The Committee believes that a significant portion of executive compensation should be dependent on value created for our stockholders. The Committee reviews long-term incentive compensation strategy and vehicles as part of its annual executive compensation determinations. In May 2005, we adopted the 2005 Plan, a stockholder approved plan, pursuant to which we may issue to directors, officers and key employees various equity securities. The 2005 Plan forms the basis of our long-term incentive plan for executives.

The Committee's current philosophy is to grant options with an exercise price at the market price of our common stock on the date of grant. Prior to 2007, we annually granted long-term incentive awards on the date of the first Committee meeting held in late January of each year. Beginning in 2007, our Board determined that such awards would be granted on February 5 each year, which both establishes a fixed date for such grants and is anticipated to be during a "window" period (more than two days following the release of our annual earnings for the prior year). If this date falls on a non-trading day such as a weekend, the exercise price for the grant would be the closing price on the first preceding trading day (for example, a Friday if February 5 on a given year is a

Saturday). We also grant interim awards from time to time in connection with intra-year hires, acquisitions, promotions, or other reasons based on a date selected by the Committee on or after the date of the Committee action at a meeting or by unanimous written consent.

In January 2007, as in 2006, the Committee awarded our executives a combination of stock options, restricted common stock and performance-based restricted stock units. Please refer to the Grants of Plan Based Awards table below for a description of these types of equity awards under the 2005 Plan. The Committee believes that awarding a combination of these forms of equity is more appropriate to achieve the goals of our long-term incentive compensation program than awarding only one form of equity. Stock options align our executives' interests with the interests of stockholders by having value only if our stock price increases over time. Restricted common stock better serves the retention goal by ensuring that the awards will have value if they vest because the ultimate value of restricted stock, unlike stock options, does not depend solely on our stock price increasing over time. Performance restricted stock units require performance over a multi-year measurement period and thereby help align our executive compensation program with longer term company performance.

The 2007 performance restricted stock units each represent the right to potentially receive one share of our common stock for each vested unit, as determined on the third anniversary of the grant date based upon the satisfaction of specified 3-year average annual earnings per share growth rates during the 2007-2009 performance period. Actual vesting may range from 0% up to 125% of the number of performance units awarded, depending on actual performance. In establishing the performance levels, it is generally anticipated that at least some portion of the performance units will vest following the three-year period, with increasing degrees of difficulty in achieving the higher levels of vesting. Achieving the maximum vesting level is anticipated, at the time of establishing the award, to be very difficult to achieve based on company performance expectations and historical earnings per share growth rates. The 2006 performance units were the first such units we granted to our executives, and had a 2006-2008 performance period. As of December 31, 2007, none of the performance goals associated with the 2006 or 2007 performance stock units are expected to be achieved, which would result in no units vesting for any of our executives.

When reviewing each executive's proposed equity awards in 2007, the Committee considered the level of responsibility and complexity of the executive's job, whether, in the Committee's business judgment and taking into account input from our CEO, Chairman and other Board members, prior individual performance was particularly strong or weak (for all executives other than Mr. Shepard, who was a new employee in 2007), how the executive's proposed equity award value compares to the equity award values of other Harte-Hanks executives and to the 50th percentile and 75th percentile market information based on benchmark data for the same or similar positions, and the combined potential total direct compensation value of an executive's salary, annual bonus opportunity and long-term incentive awards.

Perquisites

Consistent with previous years, our 2007 executive compensation program includes limited executive perquisites. The aggregate incremental cost of providing perquisites and other benefits to our named executive officers is included in the amount shown in the All Other Compensation column of the Summary Compensation table below and detailed in the subsequent All Other Compensation table. We believe the limited perquisites we provide to our executives are representative of comparable benefits offered by companies with whom we compete for executive talent, and therefore offering these benefits serves the objective of attracting and retaining top executive talent by enhancing the competitiveness of our compensation program. Our perquisites are:

- *Supplemental Life Insurance Benefits* — We provide life insurance benefits to our executive officers at a higher level than is offered more generally to our employees under our health and welfare benefits program. Additional information about the supplemental life insurance benefits provided to our named executive officers is found in the applicable executive's table below under "Potential Termination and Change in Control Benefits Tables." In January 2007, the Committee approved an increase in the supplemental life insurance benefits for Mr. Blythe from $50,000 per year for ten years to $70,000 per

year for ten years to bring Mr. Blythe's benefits in line with those provided to Messrs. Gorman and Skidmore. There was no change to Messrs. Hochhauser's, Gorman's or Skidmore's life insurance benefits from 2006 to 2007. Mr. Shepard's life insurance benefits were established by the Committee at a level consistent with the benefits provided to Messrs. Blythe, Gorman and Skidmore. In January 2008, the Committee approved an increase in the supplemental life insurance benefits for Messrs. Blythe, Gorman and Skidmore from $70,000 per year for ten years to $90,000 per year for ten years in the event of the executive's death. The decision to increase the potential payments to their beneficiaries reflected Mr. Blythe's promotion and the desire to also provide comparable, increased life insurance benefits to our longer-term Executive Vice Presidents, Messrs. Gorman and Skidmore.

- *Automobile Allowance* — We also provide automobile allowances to our executive officers, including our named executive officers, in the following amounts: Chief Executive Officer — $1,325 per month; Executive Vice Presidents and Senior Vice Presidents — $975 per month; and Vice Presidents — $600 per month. There were no changes to our named executive officers' automobile allowances from 2006 to 2007. In January 2008, the Committee approved an increase in Mr. Blythe's automobile allowance from $975 per month to $1,325 per month in connection with his promotion to CEO in early February 2008.

In establishing the elements and amounts of each executive's 2007 compensation, the Committee took into consideration, as one of the relevant factors, the value of these perquisites to our executives. Tally sheets are used as a reference to ensure that Committee members understand the total compensation provided to executives each year and over a multi-year period, including the amount of each executive's supplemental life insurance benefits and automobile allowance.

Pension and Retirement

Consistent with our historical executive compensation program, each executive officer participates in our non-qualified pension restoration plan and some executives will also receive benefits under our frozen qualified defined benefit pension plan. These pension benefits are designed to attract and retain key talent by providing our executives with a competitive retirement income program to supplement savings through our 401(k) plan. We sponsor a defined benefit pension plan (Defined Benefit Plan) qualified under Section 401 of the Code. We have also established an unfunded, non-qualified pension restoration plan, which became effective on January 1, 1994 and was amended and restated on January 1, 2000 (Restoration Pension Plan). The Defined Benefit Plan was frozen as of December 31, 1998 (at which time the benefits available under the company sponsored 401(k) plan were enhanced), and no further benefits will accrue under that plan. In addition, the Code places certain limitations on the amount of pension benefits that may be paid under qualified plans and on the amount of compensation considered in determining the pension benefit amount. Any benefits payable to participants in excess of amounts permitted under the Code and any benefit accrued after December 31, 1998 will be paid under the Restoration Pension Plan.

The annual pension benefit under the Restoration Pension Plan and the Defined Benefit Plan, taken together, are largely computed by multiplying the number of years of employment by a percentage of the participant's final average earnings (earnings during the highest five consecutive years within the last ten years of employment). Participation in the Restoration Pension Plan is limited to those employees of Harte-Hanks who are designated by the Board as eligible and currently includes only corporate officers. All benefits payable under the Restoration Pension Plan are to be paid from our general assets, but we are not required to set aside any funds to discharge our obligations under the Restoration Pension Plan. Further details about our pension plans are shown in the "Pension Benefits" section below.

In establishing the elements and amounts of each executive's 2007 compensation, tally sheets were used as a reference to ensure that Committee members understand the total compensation provided to executives each year and over a multi-year period, including potential future pension payments to each executive. The Committee considered these future payments in determining whether the overall executive compensation program remains

competitive to attract and retain key executives, although the Committee did not use pre-established formulas or rigidly set other compensation amounts or elements based solely upon future pension payments. There were no changes to the benefits provided to our named executive officers under our pension plans from 2006 to 2007.

Severance Agreements

We have entered into standard form severance agreements with each of our named executive officers and other corporate officers. These severance agreements are generally designed to attract and retain key talent by providing certain compensation in the event of a change of control. The severance agreement for one of our named executive officers also provides severance benefits in designated non-change of control scenarios because of his position at the time of entering into the agreement and the then-current form of agreement for other similarly situated executives. We have similar change of control severance agreements with Messrs. Blythe (entered in 2004), Shepard (entered in 2007) and Skidmore (entered in 2000). We also have a severance agreement with Mr. Gorman (entered in 2000) that provides similar severance benefits in certain non-change of control and change of control scenarios. In August 2007, we entered into a transition and consulting agreement with Mr. Hochhauser in connection with his retirement in February 2008. That agreement replaced Mr. Hochhauser's December 2000 severance agreement, which previously provided severance benefits in certain non-change of control and change of control scenarios. The terms of Mr. Hochhauser's transition and consulting agreement took into consideration recommendations of our Chairman and discussions with Mr. Hochhauser regarding the timing and nature of consulting services that were anticipated to be provided by Mr. Hochhauser, and the amount of Mr. Hochhauser's salary as our CEO. The payout levels and triggering events in the severance agreements for Messrs. Blythe, Shepard, Skidmore and Gorman were initially structured a number of years ago based on the Committee's review of publicly available market data regarding severance agreements. In 2007, the Board approved an amendment to the equity acceleration provisions of the executive severance agreements to clarify that acceleration would apply to all types of equity-based awards rather than only options. This clarification amendment was intended to reflect that, since 2006, the company has granted its executives restricted stock and performance restricted stock units, in addition to stock options. Additional information regarding these agreements is set forth below under, "Potential Payments Upon Termination or Change of Control."

In establishing the elements and amounts of each executive's 2007 compensation, tally sheets were used as a reference to ensure that Committee members understand the total compensation provided to executives each year and over a multi-year period, including potential change of control and other termination payments to each executive. The Committee considered these potential future payments in determining whether the overall executive compensation program remains competitive to attract and retain key executives, although the Committee did not use pre-established formulas or rigidly set the other compensation amounts or elements of our executives based solely on potential future change of control or other termination payments.

Discretionary Bonuses and Equity Awards

We pay sign-on and other bonuses and grant new-hire equity awards when necessary or appropriate to attract top executive talent from other companies. Executives we recruit often have a significant amount of unrealized value in the form of unvested equity and other forgone compensation opportunities. Sign-on bonuses and special equity awards are an effective means of offsetting the compensation opportunities executives lose when they leave a former company to join Harte-Hanks. In 2007, in connection with our hiring of Mr. Shepard, he received the following initial equity awards in December 2007: (1) options to purchase 50,000 shares of Harte-Hanks common stock, and (2) 7,500 shares of restricted common stock. Mr. Shepard also received on his start date a one-time payment of $150,000 in cash and a grant of restricted stock equal to $75,000 based on the closing market price of Harte-Hanks common stock on his start date.

We also grant discretionary equity awards from time to time when appropriate to retain key executives or recognize expanded roles and responsibilities. Discretionary equity awards have typically taken the form of stock options. As noted above, Messrs. Blythe and Skidmore each received option awards in July 2007 in connection with their promotions and expanded responsibilities.

Internal Pay Equity

While comparisons to compensation levels at companies in our peer group are helpful in assessing the overall competitiveness of our compensation program, we believe that our executive compensation program also must be internally consistent and equitable to achieve our compensation objectives. Our compensation philosophy is consistent for all of our executive officer positions and, although the amounts vary, the elements of our executive compensation program are also consistent for our executives. In setting the various amounts and elements of 2007 compensation for our named executive officers, the Committee viewed each named executive officer's compensation amounts and elements against those of the other named executive officers. The Committee did not establish any rigid formulas or ratios. Rather, the Committee's ultimate compensation determinations were influenced by a number of factors, including internal pay equity, that were taken into consideration together in the Committee's business judgment, as discussed above. We believe the total 2007 compensation we paid to each of our named executive officers was appropriate in relation to the other named executive officers. Mr. Blythe's 2007 salary was higher than the salaries for Messrs. Gorman, Skidmore and Shepard because of Mr. Blythe's August 2007 promotion to President and his anticipated transition to CEO in early 2008. Mr. Skidmore's 2007 salary was higher than the salaries for Messrs. Gorman and Shepard due to Mr. Skidmore's August 2007 promotion and broad responsibilities for our global Direct Marketing business, including Direct Marketing business development efforts and ongoing efforts to streamline and restructure our numerous Direct Marketing units from an operations and management standpoint. We believe the 2007 total compensation we paid to Messrs. Blythe, Gorman, Skidmore and Shepard in relation to the compensation we paid Mr. Hochhauser was also reasonable and appropriate given Mr. Hochhauser's experience and tenure in his position, each executive's relative responsibilities, higher benchmark data for chief executive officers relative to other members of senior management and the fact that Mr. Hochhauser was based in the high-cost jurisdiction of New York, New York.

Stock Ownership Guidelines

The Committee believes that stock ownership requirements encourage officers to maintain a significant financial stake in our company, thus reinforcing the alignment of their interests with those of our stockholders. Consistent with this philosophy, in 2005, the Committee recommended, and the Board approved, the adoption of stock ownership guidelines that require all officers to acquire and hold significant levels of our common stock. An individual will be allowed up to the later of (a) seven years from commencement of employment or promotion or (b) five years from adoption of the guidelines, to reach the minimum required level of common stock ownership. In the event that an officer moves to a level with a different minimum equity ownership level, the officer will have 24 months to achieve the higher level of ownership (but in no event less time than would be provided for in the immediately preceding sentence). The requirements are as follows:

Management Level	Multiple of Base Annual Salary
Chief Executive Officer	Four Times
President	Three and One-Half Times
Chief Operating Officer	Three and One-Third Times
Executive Vice President	Two and Two-Thirds Times
Senior Vice President	Two Times
Vice President	One Times

The recent stock ownership of our executive officers is reflected in the section above entitled "Security Ownership of Management and Principal Stockholders." For purposes of measuring compliance with these stock ownership guidelines, the following are deemed to be owned by an executive officer: (1) restricted stock that is still subject to a restricted period, and (2) common stock owned by the officer or any member of the officer's immediate family. Neither options nor performance restricted stock units are included in the compliance calculation. If an officer has not previously met the minimum equity ownership level and exercises stock options or restricted stock awarded to such officer vests, then the officer must retain fifty percent (50%) of the "net

shares" related to the exercise or vesting. "Net shares" means the number of shares remaining after the sale of shares to cover the exercise price of options and the sale of shares sufficient to pay taxes related to the exercise of options or vesting of restricted stock.

The ownership guidelines, and compliance by officers with the guidelines, are reviewed annually by the Committee. Any remedial action for failure to comply with the stock ownership guidelines is to be determined by the Committee on a case-by-case basis. Because the initial compliance period has not yet run, no officer has failed to comply with these guidelines.

Tax Deductibility of Executive Compensation

Section 162(m) of the Code prevents us from taking a tax deduction for non-performance-based compensation in excess of $1 million in any fiscal year paid to certain senior executive officers. In designing our executive compensation program, we consider the effect of Section 162(m) together with other factors relevant to our business needs. We seek to design our annual cash incentive and long-term performance unit awards and stock option awards to be tax-deductible to Harte-Hanks, so long as preserving the tax deduction does not inhibit our ability to achieve our executive compensation objectives. The Committee does have discretion to design and use compensation elements that are not deductible under Section 162(m) if the Committee believes that paying non-deductible compensation is appropriate to achieve our executive compensation objectives.

In 2007 and 2006, $0.6 million and $3.5 million respectively of compensation was paid that was not Section 162(m) qualified. These amounts relate to compensation from the exercise of stock options that were granted in the 1996 – 1998 time period. Certain of these option grants were not Section 162(m) qualified because the plan under which these grants occurred did not have the requisite stockholder approval for Section 162(m) purposes. Had such compensation been Section 162(m) qualified, we would have been able to deduct these amounts from our 2007 and 2006 income for purposes of calculating the amount of federal taxes due.

Review of and Conclusion Regarding All Components of Executive Compensation

The Compensation Committee has reviewed all components of the named executive officers' 2007 compensation, including salary, bonus, equity and long-term incentive compensation, accumulated realized and unrealized stock option gains, the dollar value to the executive and the cost to the company of all perquisites and other personal benefits and any lump-sum payments that may be payable under their respective severance agreements due to termination of their employment or a change-in-control of the company. Based upon the Compensation Committee's review, the Committee believes the compensation for our executive officers is competitive and that our compensation practices have enabled Harte-Hanks to attract and retain key executive talent. The Committee also finds the named executive officers' total compensation to be fair, reasonable and consistent with the Committee's and the company's executive compensation philosophy.

Compensation Committee Report

The material in this report is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any filing under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in such filing.

The Compensation Committee of the Board of Directors has reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and contained in this proxy statement. Based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

Compensation Committee
Judy C. Odom, Chair
William F. Farley
William K. Gayden

Equity Compensation Plan Information at Year-End 2007

The following table provides information as of the end of 2007 regarding total shares subject to outstanding stock options and rights and total additional shares available for issuance under our 2005 Plan and our 1994 Employee Stock Purchase Plan:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	6,872,094 (outstanding options and performance stock units)	$20.71 (outstanding options) (1)	4,919,810 (2)
Equity compensation plans not approved by security holders	—	—	—
Total	6,872,094 (outstanding options and performance stock units)	$20.71 (outstanding options) (1)	4,919,810 (2)

(1) The weighted-average exercise price does not take into account any shares issuable upon vesting of outstanding restricted common stock or performance restricted stock units, which have no exercise price.

(2) Shares available for issuance under the 2005 Plan may be issued pursuant to stock options, restricted common stock, performance restricted stock units, common stock, stock appreciation rights or other awards that may be established pursuant to the 2005 Plan. Shares available for issuance under our Employee Stock Purchase Plan are shares of common stock.

Important Note Regarding Compensation Tables

The following compensation tables in this proxy statement have been prepared pursuant to SEC rules. Although some amounts (*e.g.*, 2007 salary and non-equity incentive plan compensation) represent actual dollars paid to an executive, other amounts are estimates based on certain assumptions about future circumstances (*e.g.*, payments upon termination of an executive's employment) or they may represent dollar amounts recognized for financial statement reporting purposes in accordance with SFAS 123R but do not represent actual dollars received by the executive (*e.g.*, dollar values of stock awards and option awards). The footnotes and other explanations to the Summary Compensation table and the other tables herein contain important estimates, assumptions and other information regarding the amounts set forth in the tables and should be considered together with the quantitative information in the tables.

Summary Compensation Table

The following table sets forth information regarding compensation earned for 2007 and 2006 by our named executive officers: (1) Richard Hochhauser—our CEO during 2007, who retired as CEO in February 2008, (2) Dean Blythe—our President as of the end of 2007 and current President and CEO, and one of the next three most highly compensated executive officers for 2007 other than our CEO and Chief Financial Officer, (3) Pete Gorman—our Executive Vice President and President, Shoppers as of the end of 2007, and one of the next three most highly compensated executive officers for 2007 other than our CEO and Chief Financial Officer, (4) Doug Shepard—our Executive Vice President and Chief Financial Officer as of the end of 2007, and (5) Gary Skidmore—our Executive Vice President and President, Direct Marketing as of the end of 2007 and one of the next three most highly compensated executive officers for 2007 other than our CEO and Chief Financial Officer.

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (1) (e)	Option Awards ($) (1) (f)	Non-Equity Incentive Plan Compensation ($) (2) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (3) (h)	All Other Compensation ($) (4) (i)	Total ($) (j)
Richard Hochhauser	2007	$820,000	$ —	$ 21,236	$644,626	$ —	$590,847	$55,618	$2,132,327
Former Chief Executive Officer	2006	$820,000	$ —	$147,951	$979,363	$143,500	$649,756	$51,435	$2,792,005
Dean Blythe	2007	$471,667	$ —	$ 42,510	$358,370	$ —	$ 54,706	$24,770	$ 952,023
President and Chief Executive Officer	2006	$355,000	$ —	$ 44,247	$322,788	$ 42,245	$ 28,221	$23,238	$ 815,739
Pete Gorman	2007	$384,908	$ —	$ 35,478	$288,350	$ —	$175,189	$30,430	$ 914,355
Executive Vice President and President, Shoppers	2006	$394,000	$ —	$ 52,896(5)	$376,104	$ 17,730	$135,432	$23,419	$ 999,581
Doug Shepard	2007	$ 1,346(6)	$150,000(7)	$ —	$ —	$ —	$ —	$ —	$ 151,346
Executive Vice President and Chief Financial Officer	2006	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Gary Skidmore	2007	$426,962	$ —	$ 46,256	$262,475	$ 28,350	$ 93,701	$23,832	$ 881,576
Executive Vice President and President, Direct Marketing	2006	$340,000	$ —	$ 32,928(5)	$287,383	$ 32,513	$ 38,639	$22,571	$ 754,034

(1) The amounts in columns (e) and (f) reflect the dollar amount recognized for financial statement reporting purposes for the fiscal years ended December 31, 2007 and December 31, 2006, in accordance with SFAS 123R. As of December 31, 2007, none of the performance goals associated with outstanding performance restricted stock units were expected to be achieved. As a result, no compensation expense related to performance restricted stock unit awards has been recorded since June 30, 2007 and we reversed previously recorded stock-based compensation expense related to performance restricted stock units in the third quarter of 2007. Assumptions used in the calculation of these amounts are included in note I of our audited financial statements for the fiscal year ended December 31, 2007 included in our Annual Report on Form 10-K filed with the SEC (the “Form 10-K”).

(2) The amounts shown in column (g) are attributable to annual cash bonuses earned in fiscal year 2006 and 2007, but paid in 2007 and 2008. These are discussed in further detail under the heading “Annual Incentive Compensation” included above in the CD&A section of this proxy statement.

(3) The amounts in column (h) reflect an estimate of the actuarial increase in the present value of the named executive officer’s benefits under the Defined Benefit Plan and Restoration Pension Plan, determined using interest rate and mortality rate assumptions consistent with those used in our audited financial statements and described in note F of the Form 10-K. There can be no assurance that the amounts shown will ever be realized by the named executive officers.

(4) The amounts in column (i) are detailed by type and more fully described in the All Other Compensation table included below.

(5) Included in these amounts are expenses related to restricted stock awards earned in fiscal year 2005, but granted in 2006. Mr. Gorman and Mr. Skidmore each elected to receive a portion of their bonus (earned in 2005) in the form of restricted stock. As a result of such election, each such executive received 125% of the value of the foregone cash portion of the bonus in the form of restricted stock. These shares will vest 100% on the third anniversary of their date of grant. The fair value of each restricted share was estimated as the closing market price of our common stock on the date of grant. The portion of the restricted stock award related to the foregone bonus is not included in the “Stock Awards” amounts presented above, as the related expense was recognized in 2005 and therefore not subject to SFAS 123R under the modified prospective transition method we adopted on January 1, 2006. For the shares that represented the additional 25% of restricted shares granted, the expense is being recognized in accordance with SFAS 123R and is therefore included in the “Stock Awards” amounts presented above.

(6) Mr. Shepard joined Harte-Hanks in December 2007.

(7) Represents a one-time payment of $150,000 in cash to Mr. Shepard on his start date in December 2007.

All Other Compensation

Name	Year	Insurance Premiums (1)	Auto Allowance	Company Contrib. to 401(k) Plans (2)	Dividends on Restricted Stock (3)	Total
Richard Hochhauser	2007	$25,342	$15,900	$9,000	$5,376	$55,618
	2006	$24,167	$15,900	$8,800	$2,568	$51,435
Dean Blythe	2007	$ 1,970	$11,700	$9,000	$2,100	$24,770
	2006	$ 1,970	$11,700	$8,800	$ 768	$23,238
Pete Gorman	2007	$ 7,299	$11,700	$9,000	$2,431	$30,430
	2006	$ 1,496	$11,700	$8,800	$1,423	$23,419
Doug Shepard	2007	$ —	$ —	$ —	$ —	$ —
	2006	$ —	$ —	$ —	$ —	$ —
Gary Skidmore	2007	$ 645	$11,700	$9,000	$2,487	$23,832
	2006	$ 1,083	$11,700	$8,800	$ 988	$22,571

(1) This column reports premiums paid by us in 2006 and 2007 for life insurance policies insuring the lives of the named executive officers.

(2) This column reports company matching contributions we made on behalf of each of the named executive officers to each of the named executive officer's 401(k) savings accounts.

(3) This column reports the amount of dividends we paid during 2006 and 2007 on shares of restricted stock held by each of the named executive officers.

Grants of Plan Based Awards

The following table sets forth information regarding grants of equity-based awards during 2007 to our named executive officers. All of the equity awards described below were granted pursuant to our 2005 Plan. Vesting of equity awards is accelerated upon the occurrence of certain events. See "Potential Payments Upon Termination or Change of Control" below.

Stock Options — All options in 2007 were granted at exercise prices equal to the closing market price per share of our common stock on the grant date. Options vest in equal 25% increments on each of the second, third, fourth, and fifth anniversaries of their grant date and expire on the tenth anniversary of their grant date.

Restricted Common Stock — Restricted stock awards in 2007 were granted with no exercise price and vest 100% on the third anniversary of their date of grant, with the exception of the 4,335 restricted shares granted to Mr. Shepard on his start date in December 2007, which vest 100% on the first anniversary of their grant date. Restricted stock awards receive dividends during the vesting period, which have been reflected in the All Other Compensation table above.

Performance Restricted Stock Units — Performance restricted stock units in 2007 were also granted with no exercise price; however the number of shares ultimately awarded under these stock units is dependent on certain performance conditions. Each unit represents the right potentially to receive one share of our common stock for each vested restricted stock unit. The amount of restricted stock units that vest, if any, will be determined on the third anniversary of the date of grant based upon our average earnings per share growth rates for the years 2007-2009. The stock units do not receive dividends during the vesting period.

Name (a)	Grant Date (b)	Estimated Future Payouts Under Equity Incentive Plan Awards (1) (2) Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards ($/Sh) (3) (k)	Grant Date Fair Value of Stock and Option Awards ($)(4) (l)
Richard Hochhauser								
Restricted Stock	2/5/2007	—	—	—	8,500	—	—	$221,595
Performance Stock Units	2/5/2007	—	6,375	10,625	8,500	—	—	$214,200
Dean Blythe								
Stock Options	2/5/2007	—	—	—	—	30,000	$26.07	$211,536
Stock Options	7/31/2007	—	—	—	—	100,000	$23.55	$816,380
Restricted Stock	2/5/2007	—	—	—	4,300	—	—	$112,101
Performance Stock Units	2/5/2007	—	3,225	5,375	4,300	—	—	$108,360
Pete Gorman								
Stock Options	2/5/2007	—	—	—	—	17,500	$26.07	$123,396
Restricted Stock	2/5/2007	—	—	—	2,500	—	—	$ 65,175
Restricted Stock	2/5/2007	—	—	—	255(5)	—	—	$ 6,648
Performance Stock Units	2/5/2007	—	1,875	3,125	2,500	—	—	$ 63,000
Doug Shepard								
Stock Options	12/31/2007	—	—	—	—	50,000	$17.30	$266,660
Restricted Stock	12/31/2007	—	—	—	4,335(6)	—	—	$ 74,996
Restricted Stock	12/31/2007	—	—	—	7,500	—	—	$129,750
Gary Skidmore								
Stock Options	2/5/2007	—	—	—	—	30,000	$26.07	$211,536
Stock Options	7/31/2007	—	—	—	—	75,000	$23.55	$612,285
Restricted Stock	2/5/2007	—	—	—	4,300	—	—	$112,101
Restricted Stock	2/5/2007	—	—	—	468(5)	—	—	$ 12,201
Performance Stock Units	2/5/2007	—	3,225	5,375	4,300	—	—	$108,360

(1) Other than the amounts reported in the Summary Compensation table above, there were no non-equity incentive plan awards granted or outstanding in 2007.

(2) The amounts shown in column (f) reflect that 0% is the minimum payout level of the performance restricted stock units which are payable in shares of common stock. The target amount shown in column (g) is 75% of the number of units granted, which is a hypothetical payout amount. Based on a three-year historical average earnings per share growth rate as of December 31, 2007, the payout level would be zero shares of common stock. The amount shown in column (h) is 125% of the number of units granted, which is the maximum payout level. As of December 31, 2007, none of the performance goals associated with outstanding performance restricted stock units were expected to be achieved.

(3) The amount shown in column (k) is based upon the closing market price of our common stock on the grant date, as reported on the NYSE.

(4) The amounts shown in column (l) represent the full grant date fair value of the options and awards calculated in accordance with SFAS 123R. For a discussion of valuation assumptions, see note I of our audited financial statements for the fiscal year ended December 31, 2007 included in our Form 10-K.

(5) Mr. Gorman and Mr. Skidmore each elected to receive a portion of their bonus (earned in 2006) in the form of restricted stock. As a result of such election, each such executive received 125% of the value of the foregone cash portion of the bonus in the form of restricted stock. The amount shown in column (i) reflects the number of shares related to the foregone cash bonus amount determined using the fair market value of our common stock as of the grant date.

(6) Represents a one-time grant to Mr. Shepard on his start date of restricted stock equal to $75,000, based on the closing price of our stock on the date of grant.

Outstanding Equity Awards at Year End

The following table sets forth information regarding outstanding equity awards held at the end of 2007 by our named executive officers. Some of these equity awards were issued pursuant to the 2005 Plan and older option awards were issued pursuant to the 1991 Stock Option Plan (1991 Plan).

2005 Plan — In May 2005, we adopted the 2005 Plan, a stockholder approved plan, pursuant to which we may issue to directors, officers and key employees various equity securities. Under the 2005 Plan, we have awarded stock options, restricted stock and performance-based restricted stock units. Please refer to the Grants of Plan Based Awards table above for a description of these types of equity awards under the 2005 Plan.

1991 Plan — The 2005 Plan replaced the 1991 Plan, a stockholder approved plan, pursuant to which we issued stock options to officers and key employees. No additional options will be granted under the 1991 Plan. Under the 1991 Plan, options were granted at exercise prices equal to the market price of the common stock on the grant date (1991 Plan market price options) and at exercise prices below the market price of the common stock (1991 Plan performance options). 1991 Plan market price options granted prior to January 1998 became exercisable after the fifth anniversary of their date of grant and expire on the tenth anniversary of their date of grant. Beginning January 1998, 1991 Plan market price options became exercisable in 25% increments on the second, third, fourth and fifth anniversaries of their date of grant and expire on the tenth anniversary of their date of grant. No 1991 Plan performance options have been granted since January 1999. The 1991 Plan performance options became exercisable in whole or in part after three years, and the extent to which they became exercisable at that time depended upon the extent to which we achieved certain goals established at the time the options were granted. In December 2005, the remaining unvested 1991 Plan performance options were amended to comply with Section 409A of the Code. Under this option amendment, these unvested 1991 Plan performance options will only be exercisable on the business day following the vesting date of each option.

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) (1) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (1)(2) (j)
Richard Hochhauser	3,000	4,500(6)	—	$ 1.33	1/12/2009	10,700(3)	$185,110	—	$—
	75,000	—	—	$16.33	1/12/2009	8,500(4)	$147,050	—	$—
	112,500	—	—	$13.38	1/6/2010	—	$ —	—	$—
	150,000	—	—	$14.67	1/9/2011	—	$ —	—	$—
	225,000	—	—	$18.22	1/8/2012	—	$ —	—	$—
	100,000	—	—	$19.85	9/3/2012	—	$ —	—	$—
	62,500	62,500(9)	—	$22.03	2/2/2014	—	$ —	—	$—
	37,500	112,500(10)	—	$25.63	1/27/2015	—	$ —	—	$—
	—	75,000(11)	—	$25.80	1/25/2016	—	$ —	—	$—
Dean Blythe	75,000	—	—	$15.50	11/1/2011	3,200(3)	$ 55,360	—	$—
	20,000	—	—	$19.85	9/3/2012	4,300(4)	$ 74,390	—	$—
	37,500	12,500(12)	—	$19.19	8/28/2013	—	$ —	—	$—
	17,500	17,500(9)	—	$22.03	2/2/2014	—	$ —	—	$—
	12,500	37,500(10)	—	$25.63	1/27/2015	—	$ —	—	$—
	—	22,500(11)	—	$25.80	1/25/2016	—	$ —	—	$—
	—	30,000(14)	—	$26.07	2/5/2017	—	$ —	—	$—
	—	100,000(15)	—	$23.55	7/31/2017	—	$ —	—	$—

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) (1) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (1)(2) (j)
Pete Gorman	—	1,800(6)	—	$ 1.33	1/12/2009	5,928(3)	$102,554	—	$—
	22,500	—	—	$16.33	1/12/2009	2,755(4)	$ 47,662	—	$—
	45,000	—	—	$14.67	1/9/2011	—	$ —	—	$—
	75,000	—	—	$18.22	1/8/2012	—	$ —	—	$—
	30,000	—	—	$19.85	9/3/2012	—	$ —	—	$—
	25,000	25,000(9)	—	$22.03	2/2/2014	—	$ —	—	$—
	12,500	37,500(10)	—	$25.63	1/27/2015	—	$ —	—	$—
	6,250	18,750(8)	—	$26.31	9/21/2015	—	$ —	—	$—
	—	25,000(11)	—	$25.80	1/25/2016	—	$ —	—	$—
	—	17,500(14)	—	$26.07	2/5/2017	—	$ —	—	$—
Doug Shepard	—	50,000(7)	—	$17.30	12/31/2017	4,335(5)	$ 74,996	—	$—
	—	—	—	$ —		7,500(5)	$129,750	—	$—
Gary Skidmore . . .	—	1,800(6)	—	$ 1.33	1/12/2009	4,115(3)	$ 71,190	—	$—
	12,000	—	—	$16.33	1/12/2009	4,768(4)	$ 82,486	—	$—
	4,500	—	—	$15.25	5/21/2009	—	$ —	—	$—
	58,500	—	—	$14.50	8/30/2009	—	$ —	—	$—
	22,500	—	—	$15.75	5/22/2010	—	$ —	—	$—
	75,000	—	—	$16.75	8/31/2010	—	$ —	—	$—
	75,000	—	—	$18.22	1/8/2012	—	$ —	—	$—
	40,000	—	—	$19.85	9/3/2012	—	$ —	—	$—
	10,000	10,000(9)	—	$22.03	2/2/2014	—	$ —	—	$—
	10,000	10,000(13)	—	$24.42	4/23/2014	—	$ —	—	$—
	7,500	22,500(10)	—	$25.63	1/27/2015	—	$ —	—	$—
	—	15,000(11)	—	$25.80	1/25/2016	—	$ —	—	$—
	—	30,000(14)	—	$26.07	2/5/2017	—	$ —	—	$—
	—	75,000(15)	—	$23.55	7/31/2017	—	$ —	—	$—

(1) Based upon the closing market price of our common stock as of December 31, 2007 ($17.30), as reported on the NYSE.

(2) In 2007, as in 2006, our Compensation Committee awarded our executives performance-based restricted stock units. As of December 31, 2007, none of the performance goals associated with the 2006 or 2007 performance stock units are expected to be achieved, which would result in no units vesting for any of our executives. As a result, no compensation expense related to performance stock awards has been recorded since June 30, 2007 and we reversed $0.5 million of previously recorded stock-based compensation related to performance stock units in the third quarter of 2007, see note I of our audited financial statements for the fiscal year ended December 31, 2007 included in our Form 10-K. For a description of these types of equity awards, please refer to the Grants of Plan Based Awards table above (with respect to the 2007 grants) and the Grants of Plan Based Awards table in last year's proxy statement (with respect to the 2006 grants).

(3) Restricted stock vests on January 25, 2009.

(4) Restricted stock vests on February 5, 2010.

(5) 4,335 shares of restricted stock vest on December 31, 2008. 7,500 shares of restricted stock vest on December 31, 2010.

(6) Options vested on January 12, 2008.

(7) These options vest annually in equal installments of 12,500 between December 31, 2009 and December 31, 2012.

(8) These options vest annually in equal installments of 6,250 between September 21, 2008 and September 21, 2010.

(9) These options vest annually in equal installments (31,250 for Hochhauser, 8,750 for Blythe, 12,500 for Gorman and 5,000 for Skidmore) between February 2, 2008 and February 2, 2009.

(10) These options vest annually in equal installments (37,500 for Hochhauser, 12,500 for Blythe, 12,500 for Gorman and 7,500 for Skidmore) between January 27, 2008 and January 27, 2010.

(11) These options vest annually in equal installments (18,750 for Hochhauser, 5,625 for Blythe, 6,250 for Gorman and 3,750 for Skidmore) between January 25, 2008 and January 25, 2011.

(12) These options vest on August 28, 2008.

(13) These options vest annually in equal installments of 5,000 between April 23, 2008 and April 23, 2009.

(14) These options vest annually in equal installments (7,500 for Blythe, 4,375 for Gorman and 7,500 for Skidmore) between February 5, 2009 and February 5, 2012.

(15) These options vest annually in equal installments (25,000 for Blythe and 18,750 for Skidmore) between July 31, 2009 and July 31, 2012.

Option Exercises and Stock Vested

The following table sets forth information for our named executive officers regarding option exercises and equity vestings during 2007.

	Option Awards		Stock Awards (1)	
Name (a)	**Number of Shares Acquired on Exercise (#) (b)**	**Value Realized on Exercise ($) (c)**	**Number of Shares Acquired on Vesting (#) (d)**	**Value Realized on Vesting ($) (e)**
Richard Hochhauser	135,000	$776,820	—	—
Dean Blythe	—	—	—	—
Pete Gorman	33,000	$514,466	—	—
Doug Shepard	—	—	—	—
Gary Skidmore	24,000	$381,200	—	—

(1) No stock awards vested during 2007.

Pension Benefits

The table below under this heading sets forth information regarding estimated payments or other benefits payable at, following or in connection with retirement to which our named executive officers are entitled under the following plans:

Defined Benefit Plan

The purpose of this plan is to provide participants with benefits when they separate from employment through termination, retirement, death or disability. The plan was frozen to participation and benefit accruals as of December 31, 1998. All participants are 100% vested as of December 31, 1998. Death benefits are provided to beneficiaries on behalf of participants. The plan provides benefits based on a formula that takes into account the executive's earnings for each fiscal year. For purposes of the calculation of the monthly amount payable starting after retirement under the Defined Benefit Plan, the following definitions apply:

"*Average Monthly Compensation*" means the monthly average of the five consecutive years' compensation out of the last ten complete years on December 31, 1998 that gives the highest average; such compensation includes W-2 compensation plus any compensation deferred under a Section 125 or Section 401(k) plan. Compensation is limited by the pay limit in Section 401(a)(17) of the Code.

"*Normal Retirement Date*" means the date upon which a participant reaches age 65.

"*Covered Compensation*" means a 35-year average of the Maximum Taxable Wages (MTW) under social security. The MTW is the annual limit on wages subject to the FICA tax for social security. The 35-year period ends with the year the employee reaches eligibility for an unreduced social security benefit (age 65, 66, or 67 depending on the year the employee was born). For years after the year of termination and prior to the end of the 35-year period, the MTW from the years of termination is used.

The monthly amount (Monthly Accrued Benefit) shall be equal to the sum of A and B multiplied by C where A, B and C are defined below:

A = 1.0 percent of the Average Monthly Compensation at December 31, 1998 multiplied by the projected number of years of credited service at the Normal Retirement Date.

B = 0.65 percent of the Average Monthly Compensation at December 31, 1998 in excess of 1/12 of Covered Compensation at December 31, 1998 multiplied by the number of years of projected credited service at the Normal Retirement Date up to 35 years.

C = Ratio of credited service at December 31, 1998 to projected credited service at the Normal Retirement Date.

Participants are eligible for early retirement upon attainment of age 55 and five years of vesting service. The monthly amount payable upon early retirement is equal to the monthly accrued benefit at December 31, 1998 multiplied by certain plan and Internal Revenue Service-prescribed early retirement factors.

Restoration Pension Plan

The purpose of this unfunded, non-qualified pension plan is to provide employees with the benefits they would receive if the Defined Benefit Plan were not subject to the benefit and compensation limits imposed by Section 415 and Section 401(a)(17) of the Code. Selected employees designated as participants by the Board of Directors are eligible to participate under the plan. Participants currently include only corporate officers. An officer of Harte-Hanks with the title of a Senior Vice President or a higher position is 100% vested on January 1, 1996. An officer with a title below Senior Vice President will be vested at the earlier of age 55 or 20 years of credited service. The plan provides benefits based on a formula that takes into account the executive's earnings for each fiscal year. For purposes of the calculation of the monthly amount payable starting after retirement under the Restoration Pension Plan, the following definitions apply:

"*Average Monthly Compensation*" means the monthly average of the five consecutive years' compensation out of the last ten complete years that gives the highest average. For purposes of determining the gross benefit under the Restoration Pension Plan, compensation includes W-2 compensation plus any compensation deferred under a Section 125 or Section 401(k) plan, but only recognizes up to 100% of the target bonus amount for years prior to 2001 and up to 50% of the target bonus amount for years after 2000. The compensation for the gross Restoration Pension Plan benefit is not limited by the Code Section 401(a)(17) pay limit.

"*Normal Retirement Date*" means the date upon which a participant reaches age 65.

"*Covered Compensation*" has the same meaning as previously defined under the Defined Benefit Plan.

The monthly amount is the lesser of the sum of A and B multiplied by C and D as defined below over the Monthly Accrued Benefit under the Defined Benefit Plan (as described above):

A = 1.0 percent of the Average Monthly Compensation at the date of termination multiplied by the projected number of years of credited service at the Normal Retirement Date.

B = 0.65 percent of the Average Monthly Compensation at the date of termination in excess of 1/12 of Covered Compensation at the date of termination multiplied by the number of years of projected credited service at the Normal Retirement Date up to 35 years.

C = Ratio of credited service at the date of termination to projected credited service at the Normal Retirement Date.

D = 50 percent of Average Monthly Compensation at the date of termination.

Participants are eligible for early retirement upon attainment of age 55 and becoming 100% vested. The monthly amount payable upon early retirement is equal to the monthly accrued benefit at the date of termination multiplied by an early retirement factor as multiplied by certain plan and Internal Revenue Service-prescribed early retirement factors.

We do not have a policy for granting extra years of credited service.

The amounts reported in the table below equal the present value of the accumulated benefit at December 31, 2007 for our named executive officers under each plan based upon the assumptions described in note 1.

Name (a)	Plan Name (b)	Number of Years of Credited Service (#) (c)	Present Value of Accumulated Benefit ($) (1) (d)	Payments During Last Fiscal Year ($) (e)
Richard Hochhauser (2) . . .	Defined Benefit Plan	32.250	$ 552,961	$—
	Restoration Benefit Plan	32.250	$4,206,280	$—
Dean Blythe	Defined Benefit Plan	6.167	$ —	$—
	Restoration Benefit Plan	6.167	$ 154,361	$—
Pete Gorman (3)	Defined Benefit Plan	26.500	$ 285,661	$—
	Restoration Benefit Plan	26.500	$1,182,879	$—
Doug Shepard	Defined Benefit Plan	—	$ —	$—
	Restoration Benefit Plan	—	$ —	$—
Gary Skidmore	Defined Benefit Plan	13.250	$ —	$—
	Restoration Benefit Plan	13.250	$ 413,195	$—

(1) The accumulated benefit is based on service and earnings, as described above, considered by the plans for the period through December 31, 2007. The present value has been calculated using a discount rate of 6.25% and assuming the named executive officers will live and retire at the normal retirement age of 65 years. For purposes of calculating the actuarial present value, no pre-retirement decrements are factored into the calculations. The mortality assumption is based on the 1994 Group Annuity Mortality Tables for males and females.

(2) Participant is eligible for early retirement. The single sum values of the early retirement benefits from the Defined Benefit Plan and the Restoration Pension Plan are $573,943 and $4,451,059, respectively.

(3) Participant is eligible for early retirement. The single sum values of the early retirement benefits from the Defined Benefit Plan and the Restoration Pension Plan are $319,930 and $1,321,266, respectively.

Nonqualified Deferred Compensation

None of our named executive officers receive nonqualified deferred compensation as defined under SEC rules.

Potential Payments Upon Termination or Change of Control

Payments Pursuant to Severance Agreements

The following descriptions of our executive severance agreements do not include all terms contained in the actual agreements. Please refer to the full text of the agreements for the complete terms and provisions, copies of which are filed as exhibits to our public filings with the SEC and which are incorporated herein by reference.

Hochhauser

On July 31, 2007, we announced the retirement in early 2008 of our former CEO, Richard Hochhauser, after which Mr. Hochhauser has agreed to serve as a consultant for a three-year period. On August 29, 2007, Harte-Hanks and Mr. Hochhauser entered into a transition and consulting agreement, which superseded Mr. Hochhauser's amended and restated severance agreement dated December 15, 2000.

Pursuant to the transition and consulting agreement, Mr. Hochhauser remained employed as the CEO through February 4, 2008 and will not stand for re-election to our Board of Directors at the 2008 annual meeting.

During the employment term under the transition and consulting agreement, subject to the terms and conditions of the agreement, Mr. Hochhauser was entitled to the following compensation and benefits: (1) payment of his then-current base salary and monthly automobile allowance, (2) participation in Harte-Hanks' 2007 annual incentive compensation plan under its existing terms, and (3) eligibility to participate in Harte-Hanks' health, life, and disability insurance plans and Harte-Hanks' retirement plans, in accordance with the terms of the plans.

Since February 5, 2008, Mr. Hochhauser has served as a consultant to Harte-Hanks. During the consulting period, subject to the terms and conditions of the agreement, Mr. Hochhauser is entitled to the following compensation and benefits: (1) a consulting fee for the period from February 5, 2008 through February 4, 2009 of $162,500 per quarter; for the period from February 5, 2009 through February 4, 2010 of $112,500 per quarter; and for the period from February 5, 2010 through February 4, 2011 of $50,000 per quarter, and (2) a lump sum cash payment in the amount necessary (taking into account applicable taxes) for Mr. Hochhauser to make COBRA continuation coverage payments under Harte-Hanks' group medical and dental plans in which he (and his spouse or other eligible dependents) are then enrolled for a period of 18 months following the end of the month in which the employment term ends. The consulting period will end on February 4, 2011, unless terminated sooner in accordance with the agreement.

Mr. Hochhauser remains bound by his current confidentiality/nondisclosure agreement and non-compete agreement, except that any references in those agreements to the termination or end of his employment are deemed to refer instead to the termination or end of Mr. Hochhauser's consulting period.

The transition and consulting agreement also contains provisions that address (1) any termination of the agreement based on death or disability, termination by Harte-Hanks for cause or termination by Mr. Hochhauser, (2) a release of claims against Harte-Hanks and its affiliated parties by Mr. Hochhauser, and (3) other terms and provisions described in the actual agreement. Mr. Hochhauser is also entitled to indemnification for his acts or failures to act in his capacity as a consultant during the consulting period for services requested from time to time by Harte-Hanks pursuant to his transition and consulting agreement, to the same extent provided by our certificate of incorporation with respect to our officers and directors.

Gorman

In December 2000, we entered into a severance agreement with Pete Gorman. If (i) Harte-Hanks terminates Mr. Gorman's employment without "justification," (ii) Mr. Gorman terminates his employment for good reason due to specified adverse actions taken by Harte-Hanks, (iii) Harte-Hanks terminates Mr. Gorman's employment after a change in control of Harte-Hanks other than for "cause," death or disability, or (iv) Mr. Gorman terminates his employment after a change in control of Harte-Hanks and after specified adverse actions are taken by Harte-Hanks or he elects to terminate his employment for any reason during the thirty-day period following the first anniversary of a change in control of Harte-Hanks, then in any of such events Mr. Gorman will be entitled to:

- severance compensation in a lump sum cash amount equal to 200% of the sum of (A) his annual base salary in effect just prior to the change in control or termination date, whichever is larger, plus (B) the average of the bonus or incentive compensation for the two fiscal years preceding the year in which the change in control or the termination date occurred, whichever is larger,
- a cash payment sufficient to cover health insurance premiums for a period of 18 months,
- accelerated vesting of all unvested options, restricted stock and performance units previously granted to Mr. Gorman (in the event of a change in control, Mr. Gorman's equity awards vest upon the change in control without regard to termination of his employment), and
- a tax gross-up payment to Mr. Gorman, if applicable.

As used in the severance agreement, "*cause*" means that Mr. Gorman committed an intentional material act of fraud or embezzlement, material damage to Harte-Hanks' property or intentional wrongful disclosure of Harte-Hanks' material secret processes or confidential information. "*Change in control*" means: (i) Harte-Hanks is merged, consolidated or reorganized or sells substantially all of its assets and after such transaction less than 60% of the combined voting power of the surviving corporation is received in exchange for voting securities of Harte-Hanks, (ii) any person has become a beneficial owner of securities of Harte-Hanks, which when added to any securities already owned by such person would represent in the aggregate 30% or more of the combined voting power of the then outstanding securities of Harte-Hanks, or (iii) such other events that cause a change in control of Harte-Hanks as determined by our Board of Directors. "*Justification*" means Mr. Gorman shall have (i) committed an act of fraud, dishonesty, gross misconduct or other unethical practices, or (ii) materially failed to perform his duties to the satisfaction of the CEO of the company, which failure has not been cured within 60 days after receipt of written notice from the CEO.

Other Named Executive Officers – Blythe, Shepard and Skidmore

We have also entered into severance agreements with each of our other named executive officers. We entered into a change in control severance agreement with Mr. Blythe in March 2004, with Mr. Shepard in December 2007 and with Mr. Skidmore in December 2000. Pursuant to each agreement, if, after a "change in control" of Harte-Hanks, the executive (i) is terminated other than for "cause" (as defined in the agreement), death or disability, (ii) elects to terminate his employment after specified adverse actions are taken by Harte-Hanks or (iii) elects to terminate his employment for any reason during the thirty-day period following the first anniversary of a change in control of Harte-Hanks, then the executive will be entitled to:

- severance compensation in a lump sum cash amount equal to 200% of the sum of (A) the executive's annual base salary in effect immediately prior to the change in control or termination date, whichever is larger, plus (B) the average of the executive's bonus or incentive compensation for the two fiscal years preceding the year in which the change in control or the termination date occurred, whichever is larger,
- a cash payment sufficient to cover health insurance premiums for a period of 18 months,
- accelerated vesting of all unvested options, restricted stock and performance units previously granted to the executive (the executive's equity awards vest upon the change in control without regard to termination of the executive's employment), and
- a tax gross-up payment to the executive, if applicable.

As used in these severance agreements, the terms "cause" and "change in control" have the same meanings as used in Mr. Gorman's severance agreement.

Payments Made Upon Retirement

For a description of the pension plans in which the named executive officers participate, see the Pension Benefits table above. The tables below provide the estimated pension benefits that would have become payable if the named executive officer had ceased to be employed as of December 31, 2007.

Payments Made Upon Death or Disability

For a discussion of the life insurance policies that provide coverage to the named executive officers, see the All Other Compensation table above. The tables below provide the amounts the beneficiaries of each named executive officer would have received had such officer died on December 31, 2007.

Potential Termination and Change in Control Benefits Tables

The tables below under this heading illustrate the amount of compensation potentially payable to each named executive officer upon termination of such executive's employment under various scenarios. Any amount ultimately received will vary based on a variety of factors, including the reason for such executive's termination of employment, the date of such executive's termination of employment, and the executive's age upon termination of employment. The amounts shown assume that such termination was effective as of December 31, 2007, and therefore are estimates of the amounts that would have been paid to such executives upon their termination. Actual amounts to be paid can only be determined at the time of such executive's termination from the company.

RICHARD HOCHHAUSER(1)

			No Change in Control		Change in Control			
Benefit	**Voluntary Termination**	**Early Retirement**	**For Cause Termination**	**Termination Without Cause or for Good Reason**	**For Cause Termination**	**Termination Without Cause or for Good Reason**	**Death**	**Disability**
Cash Severance	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Unvested Equity								
Options	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Restricted Stock	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Performance Stock Units	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Bonus Stock Awards	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Retirement Benefits (2)	$4,759,241	$5,025,002(5)	$4,759,241(6)	$4,759,241	$4,759,241(6)	$4,759,241	$4,759,241	$4,759,241
Health and Welfare Benefits	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Disability Income (3)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 207,105
Life Insurance Benefits (4)	$ —	$ —	$ —	$ —	$ —	$ —	$4,050,000	$ —
Excise Tax Gross-up	$ —	$ —	$	$ —	$ —	$ —	$ —	$ —
ESTIMATED TOTAL	**$4,759,241**	**5,025,002**	**$4,759,241**	**$4,759,241**	**$4,759,241**	**$4,759,241**	**$8,809,241**	**$4,966,346**

(1) On August 29, 2007, Harte-Hanks and Mr. Hochhauser entered into a transition and consulting agreement, which superseded Mr. Hochhauser's amended and restated severance agreement dated December 15, 2000. Please refer to the section above entitled, "Payments Pursuant to Severance Agreements" for a description of the benefits provided to Mr. Hochhauser under his transition and consulting agreement.

(2) Except as otherwise noted, reflects the estimated single sum present value of qualified and non-qualified retirement plans accumulated as of December 31, 2007, which Mr. Hochhauser would be entitled to receive upon reaching age 65. Acceleration of vesting occurs in the event of a change of control. However, since Mr. Hochhauser is 100% vested at the measurement date, no additional benefits will be paid in the event of a change of control. As of December 31, 2007, Mr. Hochhauser had not attained our normal retirement age of 65.

(3) Reflects the aggregate estimated amount of all future payments to which Mr. Hochhauser would be entitled to receive under our disability program. Mr. Hochhauser would be entitled to receive such benefits until age 65.

(4) Reflects (a) the aggregate amount of 10 annual payments of $90,000 each under Mr. Hochhauser's life insurance benefits, payable over the 10 year period following death, and (b) a lump sum of $3,150,000 payable to Mr. Hochhauser's beneficiaries in the event of his death.

(5) Reflects the estimated single sum present value of qualified and non-qualified retirement plans which Mr. Hochhauser would be entitled to receive if the election was made to begin receiving early retirement benefits as of December 31, 2007.

(6) In the event of a "for cause" termination related to dishonest conduct, the Compensation Committee may deny vested retirement benefits to Mr. Hochhauser.

DEAN BLYTHE

Benefit	Voluntary Termination	Early Retirement	No Change in Control: For Cause Termination	No Change in Control: Termination Without Cause or for Good Reason	Change in Control: For Cause Termination	Change in Control: Termination Without Cause or for Good Reason	Death	Disability
Cash Severance	$ —	$—	$ —	$ —	$ —	$1,463,735	$ —	$ —
Unvested Equity (1)								
Options	$ —	$—	$ —	$ —	$ —	$ —	$ —	$ —
Restricted Stock	$ —	$—	$ —	$ —	$129,750	$ 129,750	$ —	$ —
Performance Stock Units	$ —	$—	$ —	$ —	$129,750	$ 129,750	$ —	$ —
Bonus Stock Awards	$ —	$—	$ —	$ —	$ —	$ —	$ —	$ —
Retirement Benefits (2)	$154,361	$—	$154,361(6)	$154,361	$154,361(6)	$ 154,361	$154,361	$ 154,361
Health and Welfare Benefits (3)	$ —	$—	$ —	$ —	$ —	$ 27,013	$ —	$ —
Disability Income (4)	$ —	$—	$ —	$ —	$ —	$ —	$ —	$2,690,390
Life Insurance Benefits (5)	$ —	$—	$ —	$ —	$ —	$ —	$700,000	$ —
Excise Tax Gross-up	$ —	$—	$ —	$ —	$ —	$1,494,194	$ —	$ —
ESTIMATED TOTAL	**$154,361**	**$—**	**$154,361**	**$154,361**	**$413,861**	**$3,398,803**	**$854,361**	**$2,844,751**

(1) Values are calculated based on the closing price of our common stock of $17.30 on December 31, 2007.

(2) Reflects the estimated single sum present value of qualified and non-qualified retirement plans accumulated as of December 31, 2007 which Mr. Blythe would be entitled to receive upon reaching age 65. Acceleration of vesting occurs in the event of a change of control. However, since Mr. Blythe is 100% vested at the measurement date, no additional benefits will be paid in the event of a change of control. As of December 31, 2007, Mr. Blythe had not attained our normal retirement age of 65.

(3) Reflects the lump-sum payment to be paid by us to Mr. Blythe to permit him to pay 18 months worth of future premiums under our health and welfare benefit plans.

(4) Reflects the aggregate estimated amount of all future payments to which Mr. Blythe would be entitled to receive under our disability program. Mr. Blythe would be entitled to receive such benefits until age 65.

(5) Reflects the aggregate amount of 10 annual payments of $70,000 each under Mr. Blythe's life insurance benefits, payable over the 10 year period following death.

(6) In the event of a "for cause" termination related to dishonest conduct, the Compensation Committee may deny vested retirement benefits to Mr. Blythe.

PETE GORMAN

Benefit	Voluntary Termination	Early Retirement	No Change in Control: For Cause Termination	No Change in Control: Termination Without Cause or for Good Reason	Change in Control: For Cause Termination	Change in Control: Termination Without Cause or for Good Reason	Death	Disability
Cash Severance	$ —	$ —	$ —	$ 929,983	$ —	$ 929,983	$ —	$ —
Unvested Equity (1)								
Options	$ —	$ —	$ —	$ 28,740	$ 28,740	$ 28,740	$ —	$ —
Restricted Stock	$ —	$ —	$ —	$ 104,665	$ 104,665	$ 104,665	$ —	$ —
Performance Stock Units	$ —	$ —	$ —	$ 104,665	$ 104,665	$ 104,665	$ —	$ —
Bonus Stock Awards (2)	$ 45,551	$ 45,551	$ —	$ —	$ —	$ 45,551	$ 45,551	$ 45,551
Retirement Benefits (3)	$1,468,540	$1,641,196(7)	$1,468,540(8)	$1,468,540	$1,468,540(8)	$1,468,540	$1,468,540	$1,468,540
Health and Welfare Benefits (4)	$ —	$ —	$ —	$ 18,667	$ —	$ 18,667	$ —	$ —
Disability Income (5)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 925,626
Life Insurance Benefits (6)	$ —	$ —	$ —	$ —	$ —	$ —	$ 700,000	$ —
Excise Tax Gross-up	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
ESTIMATED TOTAL	**$1,514,091**	**$1,686,747**	**$1,468,540**	**$2,655,260**	**$1,706,610**	**$2,700,811**	**$2,214,091**	**$2,439,717**

(1) Values are calculated based on the closing price of our common stock of $17.30 on December 31, 2007.

(2) The bonus stock awards vest upon termination of employment by death, disability, retirement or, after a Change in Control, termination by the company without Cause, or at such other time as determined by the Board of Directors or Compensation Committee. "Change of Control" and "Cause," for purposes of the Unvested Bonus Stock Awards, are defined pursuant to the 2005 Plan. The amounts shown in the Voluntary Termination column assume that the Board of Directors or Compensation Committee determined to accelerate vesting.

(3) Except as otherwise noted, reflects the estimated single sum present value of qualified and non-qualified retirement plans accumulated as of December 31, 2007, which Mr. Gorman would be entitled to receive upon reaching age 65. Acceleration of vesting occurs in the event of a change of control. However, since Mr. Gorman is 100% vested at the measurement date, no additional benefits will be paid in the event of a change of control. As of December 31, 2007, Mr. Gorman had not attained our normal retirement age of 65.

(4) Reflects the estimated lump-sum payment to be paid by us to Mr. Gorman to permit him to pay 18 months worth of future premiums under our health and welfare benefit plans.

(5) Reflects the aggregate estimated amount of all future payments to which Mr. Gorman would be entitled to receive under our disability program. Mr. Gorman would be entitled to receive such benefits until age 65.

(6) Reflects the aggregate amount of 10 annual payments of $70,000 each under Mr. Gorman's life insurance benefits, payable over the 10 year period following death.

(7) Reflects the estimated single sum present value of qualified and non-qualified retirement plans which Mr. Gorman would be entitled to receive if the election was made to begin receiving early retirement benefits as of December 31, 2007.

(8) In the event of a "for cause" termination related to dishonest conduct, the Compensation Committee may deny vested retirement benefits to Mr. Gorman.

DOUG SHEPARD

			No Change in Control		Change in Control			
Benefit	Voluntary Termination	Early Retirement	For Cause Termination	Termination Without Cause or for Good Reason	For Cause Termination	Termination Without Cause or for Good Reason	Death	Disability
Cash Severance	$—	$—	$—	$—	$ —	$700,000	$ —	$ —
Unvested Equity (1)								
Options	$—	$—	$—	$—	$ —	$ —	$ —	$ —
Restricted Stock	$—	$—	$—	$—	$204,746	$204,746	$ —	$ —
Performance Stock Units	$—	$—	$—	$—	$ —	$ —	$ —	$ —
Bonus Stock Awards	$—	$—	$—	$—	$ —	$ —	$ —	$ —
Retirement Benefits	$—	$—	$—	$—	$ —	$ —	$ —	$ —
Health and Welfare Benefits (2)	$—	$—	$—	$—	$ —	$ 27,013	$ —	$ —
Disability Income (3)	$—	$—	$—	$—	$ —	$ —	$ —	$4,364,476
Life Insurance Benefits (4)	$—	$—	$—	$—	$ —	$ —	$700,000	$ —
Excise Tax Gross-up	$—	$—	$—	$—	$ —	$ —	$ —	$ —
ESTIMATED TOTAL	**$—**	**$—**	**$—**	**$—**	**$204,746**	**$931,759**	**$700,000**	**$4,364,476**

(1) Values are calculated based on the closing price of our common stock of $17.30 on December 31, 2007.

(2) Mr. Shepard is entitled to receive a lump-sum payment to permit him to pay 18 months worth of future premiums to continue coverage under our health and welfare benefit plans. Mr. Shepard was not yet eligible to participate in our health and welfare plans as of December 31, 2007. The amount related is an estimate of the cost of 18 months of future premiums.

(3) Reflects the aggregate estimated amount of all future payments to which Mr. Shepard would be entitled to receive under our disability program. Mr. Shepard would be entitled to receive such benefits until age 65.

(4) Reflects the aggregate amount of 10 annual payments of $70,000 each under Mr. Shepard's life insurance benefits, payable over the 10 year period following death.

GARY SKIDMORE

			No Change in Control		Change in Control			
Benefit	**Voluntary Termination**	**Early Retirement**	**For Cause Termination**	**Termination Without Cause or for Good Reason**	**For Cause Termination**	**Termination Without Cause or for Good Reason**	**Death**	**Disability**
Cash Severance	$ —	$ —	$ —	$ —	$ —	$1,249,461	$ —	$ —
Unvested Equity (1)								
Options	$ —	$ —	$ —	$ —	$ 28,740	$ 28,740	$ —	$ —
Restricted Stock	$ —	$ —	$ —	$ —	$111,153	$ 111,153	$ —	$ —
Performance Stock Units	$ —	$ —	$ —	$ —	$111,153	$ 111,153	$ —	$ —
Bonus Stock Awards (2)	$ 42,523	$42,523	$ —	$ —	$ —	$ 42,523	$ 42,523	$ 42,523
Retirement Benefits (3)	$413,195	$ —	$413,195(7)	$413,195	$413,195(7)	$ 413,195	$ 413,195	$ 413,195
Health and Welfare Benefits (4)	$ —	$ —	$ —	$ —	$ —	$ 21,612	$ —	$ —
Disability Income (5)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$1,997,988
Life Insurance Benefits (6)	$ —	$ —	$ —	$ —	$ —	$ —	$ 700,000	$ —
Excise Tax Gross-up	$ —	$ —	$ —	$ —	$ —	$1,045,395	$ —	$ —
ESTIMATED TOTAL	**$455,718**	**$42,523**	**$413,195**	**$413,195**	**$664,241**	**$3,023,232**	**$1,155,718**	**$2,453,706**

(1) Values are calculated based on the closing price of our common stock of $17.30 on December 31, 2007.

(2) The bonus stock awards vest upon termination of employment by death, disability, retirement or, after a Change in Control, termination by the company without Cause, or at such other time as determined by the Board of Directors or Compensation Committee. "Change of Control" and "Cause," for purposes of the Unvested Bonus Stock Awards, are defined pursuant to the 2005 Plan. The amounts shown in the Voluntary Termination column assume that the Board of Directors or Compensation Committee determined to accelerate vesting.

(3) Reflects the estimated single sum present value of qualified and non-qualified retirement plans accumulated as of December 31, 2007 which Mr. Skidmore would be entitled to receive upon reaching age 65. Acceleration of vesting occurs in the event of a change of control. However, since Mr. Skidmore is 100% vested at the measurement date, no additional benefits will be paid in the event of a change of control. As of December 31, 2007, Mr. Skidmore had not attained our normal retirement age of 65.

(4) Reflects the lump-sum payment to be paid by us to Mr. Skidmore to permit him to pay 18 months worth of future premiums under our health and welfare benefit plans.

(5) Reflects the aggregate estimated amount of all future payments to which Mr. Skidmore would be entitled to receive under our disability program. Mr. Skidmore would be entitled to receive such benefits until age 65.

(6) Reflects the aggregate amount of 10 annual payments of $70,000 each under Mr. Skidmore's life insurance benefits, payable over the 10 year period following death.

(7) In the event of a "for cause" termination related to dishonest conduct, the Compensation Committee may deny vested retirement benefits to Mr. Skidmore.

DIRECTOR COMPENSATION

Elements of Current Director Compensation Program

Directors' compensation includes cash and stock-based incentives. Employee directors are not paid additional compensation for their services as directors. As of the date of this proxy statement, non-employee directors receive the following compensation for their services on the Board and its committees. Directors' compensation is subject to change from time to time.

Element	Description	Amount
Annual Cash Retainer for Board Service	Payable to "independent" Board members, as determined by the Board in accordance with applicable rules.	$50,000
Annual Cash Retainer for Committee Chairs	• Audit Committee Chair	$10,000
	• Compensation Committee Chair	$5,000
	• Nominating and Corporate Governance Committee Chair	$2,000
Cash Meeting Fees	• Per in-person Board meeting attended (payable to independent directors)	$2,000
	• Per in-person Committee meeting attended (payable to applicable Committee members)	$1,000
	• Per telephonic Board meeting attended (payable to independent directors)	$750
	• Per telephonic Committee meeting attended (payable to applicable Committee members)	$750
Annual Cash Chairman's Fee	In lieu of all other compensation to the Chairman of the Board for Board or Committee service	$200,000
Annual Equity Election In Lieu of Cash Fees	• Each independent director may elect, annually or in connection with such director's appointment to the Board, to receive all or a portion of such director's cash compensation otherwise payable for such director's services in shares of the company's common stock. • These shares of common stock are granted as soon as administratively practicable following the end of each of the company's fiscal quarters, with the number of shares delivered based on the closing sale price of the company's common stock on the NYSE on the last trading day of the immediately preceding quarter. • These shares of common stock are granted pursuant to the 2005 Plan or any applicable future equity compensation plan that may be adopted by the company.	Up to 100% of a director's cash compensation
2008 Annual Equity Awards	• For the calendar year 2008, each independent director received shares of restricted common stock, with a grant date of February 5, 2008 (the fixed date previously selected for long-term incentive awards, as described above in this proxy statement) and which vest 100% on the third anniversary of their grant date.	Shares equal to $50,000

Element	Description	Amount
	• The number of shares of restricted stock delivered was based on the closing sale price of the company's common stock on the NYSE on the grant date. • These shares of restricted stock were granted pursuant to the 2005 Plan and the other terms and conditions set forth in the applicable form of award agreement under the 2005 Plan.	
Initial Equity Award for New Directors	• Each new independent director appointed to the Board receives a one-time initial equity award of shares of restricted common stock, with a grant date on the date of appointment to the Board (or, if not a trading day, the first trading day thereafter on the NYSE) and which vest 100% on the third anniversary of their grant date. • The number of shares of restricted stock delivered is based on the closing sale price of the company's common stock on the NYSE on the grant date. • These shares of restricted stock are granted pursuant to the 2005 Plan and the other terms and conditions set forth in the applicable form of award agreement under the 2005 Plan or any applicable future equity compensation plan that may be adopted by the company.	Shares equal to $50,000
Other	• Non-management directors may also receive compensation from time-to-time for any service on special Board committees, site visits or other matters, as determined by the Board. • All directors are reimbursed for their out-of-pocket expenses incurred in connection with their service on the Board or any of its Committees.	As applicable

Establishing Director Compensation

The Compensation Committee has the responsibility for recommending to the Board the form and amount of compensation for non-employee directors. The Compensation Committee may appoint subcommittees and delegate to a subcommittee such power and authority as it deems appropriate, subject to certain limitations set forth in its charter and discussed above in the CD&A. The Compensation Committee did not appoint any subcommittees during 2007.

The Compensation Committee has the sole authority to retain or terminate a consulting firm engaged to assist in the evaluation of director compensation. From time to time, the Compensation Committee reviews surveys and other information provided by outside consultants to provide insights on director compensation matters. Our director compensation, including the Chairman's fee, is structured predominantly based upon the results of such reviews as well as the amount of time devoted to Board and committee meetings. The Committee believes that engaging a consultant on a periodic basis is more appropriate than having annual engagements. The Committee did not engage a compensation consultant for its 2007 director compensation determinations.

In mid-2007, the Committee retained an outside compensation consultant to assist the Committee with its evaluation and determinations for our 2008 director compensation program. The consulting firm, Longnecker & Associates, was engaged by and reported directly to the Committee. The Committee asked Longnecker & Associates to conduct a comprehensive review of Harte-Hanks' current director compensation program and recommend specific changes and improvements to the Committee to ensure that compensation remains aligned

with the goal of enhancing stockholder value through competitive programs that allow the company to attract, properly motivate and retain qualified non-employee directors who will contribute to Harte-Hanks' long-term success and the creation of stockholder value.

In January 2008, based on the recommendation of the Compensation Committee, the Board decided to maintain the same director compensation levels in 2008 as in 2007, with the following principal exceptions: (1) the amount of the Chairman's fee was decreased from $250,000 per year to $200,000 per year, and (2) the initial equity awards for new directors were changed from 5,000 stock options to $50,000 of restricted common stock to align the initial grant with the current annual equity grant practices for directors. The Board believes this overall compensation level is appropriate to attract and retain top board candidates.

Director Stock Ownership Guidelines

Under our Corporate Governance Principles adopted by the Board, each director is expected to own, at a date no later than three years after election to the Board, shares of our common stock valued at not less than two times the annual cash retainer (or, for 2007, stock valued at $100,000). As of December 31, 2007, each director owned at least this amount of Harte-Hanks stock.

2007 Director Compensation for Non-Employee Directors

The following table shows 2007 compensation recognized for financial statement reporting purposes of our non-employee directors. Consequently, the amounts reflected in the "Stock Awards" and "Options Awards" columns below also include amounts from awards granted in prior years.

Name	Fees Earned or Paid in Cash ($) (1)	Stock Awards ($) (2) (3)	Option Awards ($) (2) (4)	All Other Compensation ($) (5)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)
David L. Copeland	$ 78,750	$31,938	$19,358	$1,079	$131,125
William F. Farley	$ 70,750 (6)	$31,938	$19,584	$1,079	$123,351
Larry D. Franklin (7)	$250,000	$ —	$ —	$ —	$250,000
William K. Gayden	$ 67,000 (8)	$31,938	$19,358	$1,079	$119,375
Christopher M. Harte	$ 75,750 (9)	$31,938	$19,358	$1,079	$128,125
Houston H. Harte	$ —	$ —	$ —	$ —	$ —
Judy C. Odom	$ 72,000 (10)	$31,938	$20,029	$1,079	$125,046

(1) Fees were paid in cash, unless otherwise designated.

(2) These amounts in columns (c) and (d) reflect the aggregate compensation costs for financial statement reporting purposes for fiscal 2007 under SFAS 123R, for restricted stock and stock option grants in 2007 and prior years. These amounts do not reflect amounts paid to or realized by the director for fiscal 2007. Assumptions used in the calculation of these amounts are included in note I of our audited financial statements for the fiscal year ended December 31, 2007 included in our Form 10-K.

(3) Each of the independent directors was granted 1,918 shares of restricted stock in 2007 with grant date fair values, computed in accordance with SFAS 123R, of $15,211. Restricted stock awards are granted with no exercise price and vest 100% on the third anniversary of their date of grant.

(4) There were no option awards granted to any of the directors during 2007. Each of our independent directors had 13,400 option awards outstanding as of December 31, 2007. While each of the independent directors hold the same number of outstanding options, the dollar award value variances in column (d) are the result of certain of these options (for Mr. Farley and Ms. Odom) having been granted at different dates – the date, respectively, on which each first joined the Board – than the grant dates for the other three independent directors.

(5) Reflects the amount of dividends paid by Harte-Hanks during the year on shares of restricted stock held by each of the directors.

(6) Fees totaling $35,375 were paid in cash and the remaining $35,375 of fees were paid in the form of company stock at the director's election.

(7) In January 2008, based on the recommendation of the Compensation Committee, the Board reduced the amount of the Chairman's fee from $250,000 per year to $200,000 per year. During 2007, Mr. Franklin received pension payments and deferred compensation payments arising out of pre-existing compensation arrangements based on his former service as an executive officer of Harte-Hanks.

(8) Fees totaling $16,500 were paid in cash and the remaining $50,500 of fees were paid in the form of company stock at the director's election.

(9) All fees were paid in the form of company stock at the director's election.

(10) Fees totaling $36,000 were paid in cash and the remaining $36,000 of fees were paid in the form of company stock at the director's election.

Equity Awards Outstanding at Year End

The following table shows the number of outstanding equity awards held by our non-employee directors as of December 31, 2007.

Name	Number of Outstanding Shares of Restricted Stock (#)	Number of Outstanding Stock Options (#)	Total (#)
David L. Copeland	3,855	13,400	17,255
William F. Farley	3,855	13,400	17,255
Larry D. Franklin	—	307,500 (1)	307,500
William K. Gayden	3,855	13,400	17,255
Christopher M. Harte	3,855	13,400	17,255
Houston H. Harte	—	—	—
Judy C. Odom	3,855	13,400	17,255

(1) As of December 31, 2007, Mr. Franklin had 307,500 option awards outstanding, all of which were awarded during Mr. Franklin's former service as an executive officer of the Company.

AUDIT COMMITTEE AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Report of the Audit Committee

The material in this report is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any filing under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in such filing.

The Audit Committee is comprised of three directors. The Board has determined in its business judgment that each Committee member is independent under the standards of director independence established under our Corporate Governance Principles and the NYSE listing requirements and is also independent under applicable federal securities laws, including Section 10A(m)(3) of the Exchange Act. The Committee has the authority and responsibility to select, determine the compensation of, evaluate and, when appropriate, replace the company's independent auditors. Each of Messrs. Copeland and Farley is a Committee member that the Board has determined is an audit committee financial expert under applicable federal securities laws.

We act under a written charter. The functions of the Committee focus primarily on its oversight of:

- The integrity of the company's financial statements, including the financial reporting process and systems of internal controls regarding finance, accounting and legal compliance;
- The qualifications and performance of the company's independent auditors;
- The performance of the company's internal audit function; and
- The company's compliance with legal and regulatory requirements.

The Committee's functions are not intended to duplicate or certify the activities of the company's independent auditors or management, nor can the Committee certify that the company's auditors are independent under applicable federal securities laws and NYSE rules.

We meet with management periodically to consider the scope and adequacy of the company's internal controls and the objectivity of its financial reporting and discuss these matters with the company's independent auditors, the company's internal auditors and appropriate company financial personnel. We also meet privately with the company's independent auditors, KPMG LLP (KPMG), and the company's internal auditors. The company's independent auditors and its internal auditors have unrestricted access to the Committee and can meet with us upon request.

In addition, we review the company's financial statements and report our recommendations to the full Board for approval and to authorize action. It is not the Committee's duty or responsibility to conduct auditing or accounting reviews or procedures. In rendering this report, we have relied, without independent verification, on management's representations that the financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) and on representations of the company's independent auditors included in their report on the company's financial statements. Our considerations and discussions with management and the independent auditors, however, do not assure that the company's financial statements are presented in accordance with GAAP. Likewise, our considerations and discussions with management and the independent auditors do not assure that the audit of the company's financial statements has been performed in accordance with generally accepted auditing standards, or that the company's independent auditors are in fact independent.

Management is responsible for the financial reporting process, including the system of internal controls, for the preparation of consolidated financial statements in accordance with GAAP and for the report on the company's internal control over financial reporting. The company's independent auditors are responsible for auditing those financial statements and expressing an opinion as to their conformity with GAAP and for attesting to management's report on the company's internal control over financial reporting. Our responsibility is to oversee and review the financial reporting process and to review and discuss management's report on the company's internal control over financial reporting.

We held 12 meetings during 2007. The meetings were designed, among other things, to facilitate and encourage communication among the Committee, management, the internal auditors and KPMG. We discussed with the company's internal auditors and KPMG the overall scope and plans for their respective audits. In addition, we reviewed the audited consolidated financial statements for the 2007 fiscal year and met and held discussions with management and the company's independent auditors to discuss those financial statements and the audit related thereto.

We reviewed and discussed the company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002, including the Public Company Accounting Oversight Board's (PCAOB) Auditing Standard No. 2 regarding the audit of internal control over financial reporting. We reviewed and discussed the company's guidelines, policies and procedures for risk assessment and risk management and the major risk exposures of the company and its business units, as appropriate. We reviewed and discussed the audited consolidated financial statements for the fiscal year ended December 31, 2007 with management, the internal auditors and KPMG. We reviewed and discussed with management, the internal auditors and KPMG management's annual report on the company's internal control over financial reporting and KPMG's audit report.

We discussed with management, the internal auditors and KPMG the processes supporting certifications by the company's Chief Executive Officer and Chief Financial Officer that are required by the Sarbanes-Oxley Act of 2002 to accompany the company's periodic filings with the SEC. In addition, we discussed with management, the internal auditors and KPMG the processes supporting management's annual report on the company's internal controls over financial reporting. We met with the internal auditors and KPMG, with and without management present, to discuss the results of their examinations and their evaluations of the company's internal controls.

We discussed with KPMG matters that independent accounting firms must discuss with audit committees. Our discussions included generally accepted auditing standards and standards of the PCAOB, including, among other things, matters related to the conduct of the audit of the company's consolidated financial statements and the matters required to be discussed by Statement on Auditing Standards No. 114 (Communication with Audit Committees).

KPMG provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and represented that it is independent from the company. We discussed with KPMG their independence from the company. When considering KPMG's independence, we reviewed the services KPMG provided to the company that were not in connection with their audit of the company's consolidated financial statements. These services included reviews of the company's interim condensed consolidated financial statements included in its Quarterly Reports on Form 10-Q and the attestation of management's report on internal control over financial reporting. We also reviewed the audit, audit-related and tax services performed by, and the amount of fees paid for such services to, KPMG. In addition, when considering KPMG's independence, we considered any fees received by the company from KPMG.

Based on these activities, we recommended to the Board that the company's audited consolidated financial statements for the fiscal year ended December 31, 2007 be included in the company's Annual Report on Form 10-K. We also have selected KPMG as the company's independent auditors for the fiscal year ended December 31, 2008.

Audit Committee
David L. Copeland, Chairman
William F. Farley
Christopher M. Harte

Independent Auditors

Representatives of KPMG LLP, who were our independent auditors for the year 2007, are expected to be present at the 2008 annual meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions. KPMG has been selected as the company's independent auditors for the fiscal year ended December 31, 2008.

Independent Auditor Fees and Services

The following table sets forth the aggregate fees billed by KPMG or fees payable for professional services in or related to 2006 and 2007.

	2006	2007
Audit Fees (1)	$1,078,830	$1,067,815
Audit Related Fees (2)	$ 85,398	$ 103,660
Tax Fees (3)	$ 33,390	$ 33,565
All Other Fees	—	—
Total	$1,197,618	$1,205,040

(1) Fees for the annual financial statement audit, quarterly financial statement reviews and audit of internal control over financial reporting.

(2) Includes fees for assurance and related services other than those included in Audit Fees. Includes charges for statutory audits of certain of the company's foreign subsidiaries required by countries in which they are domiciled in 2007 and 2006.

(3) Fees for tax services and matters principally relating to the company's foreign operations, including foreign transfer pricing and international taxes.

Pre-Approval for Non-Audit Services

Pursuant to its charter, the Audit Committee preapproves permitted non-audit services to be performed for Harte-Hanks by its independent auditors. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant preapprovals of non-audit services, provided that decisions of such subcommittee to grant preapprovals shall be presented to the full Audit Committee at its next scheduled meeting.

PROPOSAL I

ELECTION OF DIRECTORS

Election of Class III Directors

The current number of members of our Board is eight. Our Board is divided into three classes, each of which serves for a three-year term. One class of directors is elected each year at the annual meeting of stockholders. The current term of our three Class III directors will expire at the 2008 annual meeting. The Class III directors elected in 2008 will serve for a term of three years, which expires at the annual meeting of stockholders in 2011 or when their successors are duly elected and qualified.

The nominees for Class III directors are (1) Houston Harte, (2) Dean Blythe and (3) Judy Odom. Mr. Harte and Ms. Odom are each current members of our Board. Mr. Blythe is our President and CEO and, if elected at the 2008 annual meeting, will fill the seat previously held by our former CEO and Class III director, Mr. Richard Hochhauser. Each of the nominees has indicated his or her willingness to serve as a member of the Board if

elected. If, however, a nominee is unable to serve, the shares represented by all valid proxies will be voted for the election of such substitute as the Board may recommend, or the Board may reduce the number of directors to eliminate the vacancy, and if any director is unable to serve his or her full term, the Board may by resolution provide for a lesser number of directors or by a majority vote of the directors then in office may designate a substitute.

Information with respect to the nominees is set forth in the section of this proxy statement entitled "Directors and Executive Officers." We believe that our directors and officers currently intend to vote their shares in favor of each of the nominees for Class III directors.

Board Recommendation on Proposal

The Board of Directors unanimously recommends a vote **FOR** the election of each of the nominees for Class III Director named above. The management proxy holders will vote all duly submitted proxies **FOR** election unless duly instructed otherwise.

PROPOSAL II

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITORS

Description of Proposal

In accordance with its charter, the Audit Committee has selected KPMG LLP as Harte-Hanks' independent auditors to audit our consolidated financial statements for fiscal 2008 and to render other services required of them. The Board is submitting the appointment of KPMG LLP for ratification at the annual stockholders meeting. Representatives of KPMG LLP are expected to be present at the meeting with the opportunity to make a statement if they so desire and to be available to respond to appropriate questions.

The submission of this matter for approval by stockholders is not legally required; however, the Board and its Audit Committee believe that such submission is consistent with best practices in corporate governance and is an opportunity for stockholders to provide direct feedback to the Board and its Audit Committee on an important issue of corporate governance. If the stockholders do not approve the selection of KPMG LLP, the Audit Committee will reconsider the selection of such firm as independent auditors, although the results of the vote are not binding on the Audit Committee.

The Audit Committee has the sole authority and responsibility to retain, evaluate, and, where appropriate, replace the independent auditors. Ratification by the stockholders of the appointment of KPMG LLP does not limit the authority of the Audit Committee to direct the appointment of new independent auditors at any time during the year or thereafter.

Board Recommendation on Proposal

The Board of Directors unanimously recommends a vote **FOR** ratification of the appointment of KPMG LLP as Harte-Hanks' independent auditors for fiscal 2008. The management proxy holders will vote all duly submitted proxies **FOR** ratification unless duly instructed otherwise.

OTHER BUSINESS

The Board is not aware of any matter to be presented for action at the annual meeting other than the matters set forth above. Should any other matter requiring a vote of stockholders properly arise, the proxies in the enclosed form confer upon the person or persons entitled to vote the shares represented by such proxies discretionary authority to vote the same in accordance with their best judgment in the interest of the company.

PROPOSALS FOR 2009 ANNUAL MEETING OF STOCKHOLDERS

There are two different deadlines for the submission of stockholder proposals. Stockholder proposals that are being submitted for inclusion in our proxy statement and form of proxy for our 2009 annual meeting must be received by us at our principal executive offices on or before December 14, 2008. Such proposals when submitted must be in full compliance with applicable laws, including Rule 14a-8 of the Exchange Act, and our bylaws.

Under our bylaws, stockholder proposals that are being submitted other than for inclusion in the proxy statement and form of proxy for our 2009 annual meeting must be received at our principal executive offices no earlier than February 12, 2009 and no later than March 14, 2009. Such proposals when submitted must be in full compliance with applicable law and our bylaws.

2007 Annual Report on

Form 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _________ to _________

Commission file number 1-7120

HARTE-HANKS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**74-1677284**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Concord Plaza Drive, Suite 800, San Antonio, Texas 78216
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code -- 210-829-9000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No___

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes _ No X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer X Accelerated filer ___ Non-accelerated filer ___

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes __ No X

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price ($25.68) as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2007), was approximately $1,280,015,000.

The number of shares outstanding of each of the registrant's classes of common stock as of January 31, 2008 was 66,756,439 shares of common stock, all of one class.

Documents incorporated by reference:

Portions of the Proxy Statement to be filed for the Company's 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

THIS ANNUAL REPORT ON FORM 10-K IS BEING DISTRIBUTED TO STOCKHOLDERS IN LIEU OF A SEPARATE ANNUAL REPORT PURSUANT TO RULE 14a-3(b) OF THE ACT AND SECTION 203.01 OF THE NEW YORK STOCK EXCHANGE LISTED COMPANY MANUAL.

Harte-Hanks, Inc. and Subsidiaries
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December 31, 2007

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PART I

ITEM 1. BUSINESS

INTRODUCTION

Harte-Hanks, Inc. (Harte-Hanks) is a worldwide direct and targeted marketing company that provides direct marketing services and shopper advertising opportunities to a wide range of local, regional, national and international consumer and business-to-business marketers. We manage our operations through two operating segments: Direct Marketing, which operates both nationally and internationally, and Shoppers, which operates in local and regional markets in California and Florida.

Marketing today is under intense focus in many organizations. Many corporations have a chief-level executive charged with marketing who is under pressure to utilize a combination of data, technology, channels and resources to demonstrate a return on marketing investment. This has led many to use direct and targeted marketing, as accountability and measurability are hallmarks of the discipline, allowing customer insight to be leveraged to create and accelerate value. Direct Marketing, which represented 63% of our total revenues in 2007, is a leader in the movement toward highly targeted marketing. Our Shoppers business applies geographic targeting principles. Our strategy is based on six key elements:

- Being a market leader in each of our businesses;
- Increasing revenues through growing our base businesses;
- Introducing new services, products and innovations;
- Entering new markets and making acquisitions;
- Using technology to create competitive advantages; and
- Employing people who understand our clients' businesses and markets;

Harte-Hanks is the successor to a newspaper business begun in Texas in the early 1920s by Houston Harte and Bernard Hanks. In 1972, Harte-Hanks went public and was listed on the New York Stock Exchange (NYSE). We became private in a leveraged buyout initiated by management in 1984. In 1993, we again went public and listed our common stock on the NYSE. In 1997, we sold all of our remaining traditional media operations (consisting of newspapers, television and radio companies) in order to focus all of our efforts on two business segments - Direct Marketing and Shoppers. See segment financial information in Note O "Business Segments" in the Notes to Consolidated Financial Statements.

Harte-Hanks provides public access to all reports filed with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended (the 1934 Act). These documents may be accessed free of charge on our website at the following address: *http://www.harte-hanks.com*. Since November 15, 2002, these documents have been provided as soon as practical after they are filed with the SEC. The documents may also be found at the SEC's website at *http://www.sec.gov*. Additionally, we have adopted and posted on our website a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. Our website also includes our corporate governance guidelines and the charters for each of our audit, compensation, and nominating and corporate governance committees. We will provide a printed copy of any of the aforementioned documents to any requesting stockholder.

DIRECT MARKETING

General

Direct marketing services are targeted to specific industries or markets with services and software products tailored to each industry or market. Our Direct Marketing clients include many of the largest retailers; financial companies including banks, financing companies, mutual funds and insurance companies; high-tech and telecommunications companies; and pharmaceutical companies and healthcare organizations. Direct Marketing

clients are also from such selected markets as automotive, consumer packaged goods, government/not-for-profit, business services, energy, publishing, travel/hospitality and utilities. We believe that we generally have the ability to provide services to new industries and markets by modifying our services and applications as opportunities are presented. In 2007, 2006 and 2005, Harte-Hanks Direct Marketing had revenues of $732.5 million, $709.7 million, and $694.6 million, respectively, which accounted for approximately 63%, 60%, and 61% of our total revenues, respectively.

Depending on the needs of our clients, our Direct Marketing capabilities are provided in an integrated approach through more than 30 facilities worldwide, more than 10 of which are located outside of the United States. Each of these centers possesses some specialization and is linked with others to support the needs of our clients.

We use various capabilities and technologies to enable our clients to identify, reach, influence and nurture their customers. Harte-Hanks Direct Marketing improves the return on its clients' marketing investment by increasing their prospect and customer value through solutions and services organized around five groupings of integrated activities:

- Information (data collection/management);
- Opportunity (data access/utilization);
- Insight (data analysis/interpretation);
- Engagement (program and campaign creation and development); and
- Interaction (program execution).

Harte-Hanks Direct Marketing uses various capabilities and technologies as enablers to capture, analyze and disseminate customer and prospect data across all points of customer contact. Using both proprietary software and open software solutions, we build contact databases for our clients using the information gained from the client's marketing and communication activities across different media such as mail, websites, e-mail, inbound and outbound teleservices, trade shows, point-of-sale and other sources. We believe that these databases enable clients to measure the return on their marketing communications investments and make more informed decisions about future marketing efforts. We help clients manage the inquiries they receive from a myriad of sources related to their marketing efforts. These inquiries, or leads, are qualified, tracked and distributed both to appropriate sales channels and to client management for analysis, decision-making and/or additional interaction in order for clients to manage their customer and prospect relationships more effectively. These leads are also developed for business-to-business clients through our CI Technology Database and through research efforts of our Aberdeen business.

Our Direct Marketing activities often start with the development of a roadmap, followed by building customized marketing databases for specific clients and providing them with easy-to-use tools to perform analysis and to target their best customers and prospects. Using our proprietary name and address matching software, the Trillium Software System®, we investigate and standardize large numbers of customer records from multiple sources, integrate them into a single database for each client and, if needed, append demographic and lifestyle information.

Our Allink® databases are built for clients and tailored to specific market segments. These databases are moved to the client's site or maintained at Harte-Hanks with online access from client locations. In addition to building a client's database and providing solutions for analytics and campaign management, we perform regular database updates.

These solutions are linked to our service bureau. Our service bureau services include preparing list selections, maximizing deliverability and reducing clients' mailing costs through our Advanced Data Quality services, including Trillium Software and Global Address capabilities in addition to sophisticated postal coding, hygiene and address updates through a non-exclusive National Change of Address license with the U.S. Postal Service.

As a further extension of the client's marketing arm, we provide customer insight by using marketing research and analytics services. Specific capabilities include tracking and reporting, media analysis, modeling, database profiling, primary data collection, marketing applications, consulting and program development.

We engage with our client's customers by offering direct marketing agency services that combine information-based strategy and brand-building creative efforts that are channel independent, using both traditional direct and interactive media.

In addition, Harte-Hanks provides a variety of services to help clients develop and execute targeted marketing communication programs. These include services such as telephone, email using our proprietary Postfuture® offering, website development and search marketing, personalization of communication pieces using laser and inkjet printing, targeted mail and fulfillment, transportation logistics, and print-on-demand as well as traditional printing.

Our mail tracking capability and long-standing relationship with the U.S. Postal Service assist our customer's mailings to reach their destinations on time. By controlling the final stage of the print distribution process through its logistics operations, we facilitate the delivery of our clients' materials while also managing costs.

Customers

Direct marketing services are marketed to specific industries or markets with services and software products tailored to each industry or market. We believe that we are generally able to provide services to new industries and markets by modifying our existing services and applications. We currently provide direct marketing services to the retail, high-tech/telecom, financial services and pharmaceutical/healthcare vertical markets, in addition to a range of selected markets. Our Direct Marketing business is not overly dependent on any one client or any group of clients. The largest client, measured in revenue, comprised 8% of total Direct Marketing revenues in 2007 and 5% of our total revenues in 2007. The largest 25 clients, measured in revenue, comprised 41% of total Direct Marketing revenues in 2007 and 26% of our total revenues in 2007.

Sales and Marketing

Our national direct marketing sales force is headquartered in Cincinnati, Ohio, with additional offices maintained throughout the United States. There are also product specific sales forces and sales groups in Europe, Australia, South America and Asia. The sales forces, with industry-specific knowledge and experience, emphasize the cross-selling of a full range of direct marketing services and are supported by employees in each sector. The overall sales focus is to position Harte-Hanks as a marketing partner offering various services and solutions (including end-to-end) as required to meet our client's targeted marketing needs.

Direct Marketing Facilities
Direct marketing services are provided at the following facilities:

National 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
Texarkana, Texas
Troy, Michigan
Wilkes-Barre, Pennsylvania
Yardley, Pennsylvania

National Markets Headquarters
Cincinnati, Ohio

International Offices
Aldermaston, United Kingdom
Böblingen, Germany
Bristol, United Kingdom
Frenchs Forest (Sydney), Australia
Hasselt, Belgium
Iasi, Romania
Les Ulis, France
Madrid, Spain
Manila, Philippines
Melbourne, Australia
São Paulo, Brazil
Uxbridge, United Kingdom

For more information please refer to Item 2 - Properties.

Competition
Our Direct Marketing business faces competition in all of its offerings and within each of its vertical markets. Direct marketing is a dynamic business, subject to technological advancements, high turnover of client personnel who make buying decisions, client consolidations, changing client needs and preferences, continual development of competing products and services and an evolving competitive landscape. This competition comes from numerous local, national and international direct marketing and advertising companies against whom we compete for individual projects, entire client relationships and marketing expenditures by clients and prospective clients. There are various competitive factors in our industry, including the quality and scope of services, technical and strategic expertise, the value of the services provided as compared to the price of the services, reputation and brand recognition. We also compete against print and electronic media and other forms of advertising for marketing and advertising dollars in general. Failure to continually improve our current processes, advance and upgrade our technology applications and to develop new products and services in a timely and cost-effective manner could result in the loss of our clients or prospective clients to current or future competitors. In addition, failure to gain market acceptance of new products and services could adversely affect our growth. Although we believe that our capabilities and breadth of services, combined with our national and worldwide production capability, industry focus and ability to offer a broad range of integrated services enable us to compete effectively, our business results may be adversely impacted by competition. Please refer to Item 1A, "Risk Factors" for additional information regarding risks related to competition.

Seasonality
Our Direct Marketing business is somewhat seasonal as revenues in the fourth quarter tend to be higher than revenues in other quarters during a given year. This increased revenue is a result of overall increased marketing activity prior to and during the holiday season, primarily related to our retail vertical.

SHOPPERS

General
Harte-Hanks Shoppers is North America's largest owner, operator and distributor of shopper publications, based on weekly circulation and revenues. Shoppers are weekly advertising publications delivered free by Standard Mail to households and businesses in a particular geographic area. Shoppers offer advertisers a targeted, cost-effective local advertising system, with virtually 100% penetration in their area of distribution. Shoppers are particularly effective in large markets with high media fragmentation in which major metropolitan newspapers generally have low penetration.

As of December 31, 2007, Shoppers delivered approximately 13 million shopper packages in five major markets each week covering the greater Los Angeles market (Los Angeles County, Orange County, Riverside County, San Bernardino County, Ventura County and Kern County), the greater San Diego market, Northern California (San Jose, Sacramento, Stockton and Modesto), South Florida (Dade County and Broward County) and the greater Tampa market. Two editions of the shopper publication are delivered to approximately 239,000 households and businesses in South Orange County where both an "early" and "late" edition *PennySaverUSA.com* are published each week. Our California publications account for approximately 80% of Shoppers' weekly circulation.

Harte-Hanks publishes 1,077 individual shopper editions each week distributed to zones with circulation of approximately 12,000 each. This allows single-location, local advertisers to saturate a single geographic zone, while enabling multiple-location advertisers to saturate multiple zones. This unique delivery system gives large and small advertisers alike a cost-effective way to reach their target markets. We believe that our zoning capabilities and production technologies have enabled us to saturate and target areas in a number of ways including geographic, demographic, lifestyle, behavioral and language allowing our advertisers to effectively target their customers. Our strategy is to increase our share of local advertising in our existing circulation areas, and, over time, to increase circulation through internal expansion into contiguous areas. In 2007, 2006, and 2005, Harte-Hanks Shoppers had revenues of $430.4 million, $475.0 million, and $440.4 million, respectively, accounting for approximately 37%, 40%, and 39% of our total revenues, respectively.

As a result of the difficult economic environment in California, we shut down approximately 600,000 of unprofitable circulation at the end of June 2007. This consisted of approximately 380,000 of circulation in the greater Los Angeles market and approximately 220,000 of circulation in the Northern California market. We will continue to evaluate all of our circulation performance, but do not currently anticipate further circulation reductions of this magnitude in the near future. Despite this recent circulation reduction, we continue to believe that future expansions may provide increased revenue opportunities in the long term.

Publications

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

		December 31, 2007	
Market	Publication Name	Circulation	Number of Zones
Greater Los Angeles	*PennySaverUSA.com*	5,650,000	504
Northern California	*PennySaverUSA.com*	2,600,500	207
Greater San Diego	*PennySaverUSA.com*	1,887,500	157
South Florida	*TheFlyer.com*	1,459,500	116
Greater Tampa	*TheFlyer.com*	1,314,500	93
Total		12,912,000	1,077

Our Shopper publications contain classified and display advertising and are delivered by Standard Mail saturation. The typical shopper publication contains approximately 41 pages and is 7 by 9-1/2 inches in size. Each edition, or zone, is targeted around a natural neighborhood marketing pattern. Shoppers also serve as a distribution vehicle for multiple ads from national and regional advertisers; "print and deliver" single-sheet inserts designed and printed by us, coupon books, preprinted inserts, and four-color glossy flyers printed by third party printers. In addition, our Shoppers also provide advertising and other services online through our websites – *PennySaverUSA.com* and *TheFlyer.com*. *PennySaverUSA.com* displays the ads published in the print versions of the *PennySaverUSA.com* (California) and *TheFlyer.com* (Florida) publications, and is a leader in the aggregation of online classified ads from free community papers and shoppers across the country. It is our current policy that customers who purchase a classified ad in one of our weekly publications, also receive a posting on our website.

We have acquired, developed and applied innovative technology and customized equipment in the publication of our Shoppers, contributing to efficiency and growth. A proprietary pagination system has made it possible for over a thousand weekly zoned editions to be designed, built and output to plate-ready negatives in a paperless, digital environment. Automating the production process saves on labor, newsprint, and overweight postage. This software also allows for better ad tracking, immediate checks on individual zone and ad status, and more on-time press starts with less manpower.

Customers

Shoppers serves both business and individual advertisers in a wide range of industries, including real estate, employment, automotive, retail, high-tech/telecom, financial services, and a number of other industries. Shoppers is not overly dependent on any one client or any group of clients. The largest client, measured in revenue, comprised 2% of total Shoppers revenue in 2007 and 1% of our total revenue in 2007. The top 25 clients in terms of revenue comprised 15% of Shoppers revenues in 2007 and 6% of our total revenues in 2007.

Sales and Marketing
We maintain local Shoppers sales offices throughout our geographic markets and employ more than 700 commissioned sales representatives who develop both targeted and saturation advertising programs for clients. The sales organization provides service to national, regional and local advertisers through its telemarketing departments and field sales representatives. Shoppers clients vary from individuals with a single item for sale to local neighborhood advertisers to large multi-location advertisers. The core clients continue to be local service businesses and small retailers. We also focus our marketing efforts on larger national accounts by emphasizing our ability to deliver saturation advertising in defined zones, or even partial zones for inserts, in combination with advertising in the Shopper publication.

Additional focus is placed on particular industries/categories through the use of sales specialists. These sales specialists are primarily used to target automotive, real estate and employment advertisers.

We utilize proprietary sales and marketing systems to enter client orders directly from the field, instantly checking space availability, ad costs and other pertinent information. These systems efficiently facilitate the placement of advertising into multiple-zoned editions and include built-in error-reducing safeguards that aid in minimizing costly sales adjustments. In addition to allowing advertising information to be entered for immediate publication, these systems feed a relational client database enabling sales personnel to access client history by designated variables to facilitate the identification of similar potential clients and to assist with timely follow-up on existing clients.

Shoppers Facilities
Our Shoppers are produced at owned or leased facilities in the markets they serve. We have six production facilities – three in Southern California, one in Northern California, one in Southern Florida and one in Tampa, Florida – and more than 30 sales offices.

For more information please refer to Item 2 - Properties.

Competition
Our Shoppers business competes for advertising, as well as for readers, with other print and electronic media. Competition comes from local and regional newspapers, magazines, radio, broadcast, satellite and cable television, other shoppers, the internet, other communications media and other advertising printers that operate in our markets. The extent and nature of such competition are, in large part, determined by the location and demographics of the markets targeted by a particular advertiser, and the number of media alternatives in those markets. Failure to continually improve our current processes, advance and upgrade our technology applications and to develop new products and services in a timely and cost-effective manner could result in the loss of our clients to current or future competitors. In addition, failure to gain market acceptance of new products and services and geographic areas could adversely affect our growth. We believe that our production systems and technology, which enable us to publish separate editions in narrowly targeted zones, and our local ad content, allow us to compete effectively, particularly in large markets with high media fragmentation. However, our business results may be adversely impacted by competition. Please refer to Item 1A, "Risk Factors" for additional information regarding risks related to competition.

Seasonality
Our Shoppers business is somewhat seasonal in that revenues from the last two publication dates in December and first two to three publication dates in January each year are affected by a slowdown in advertising by businesses and individuals after the holidays. In general the second and third quarters are the highest revenue quarters for our Shopper business.

U.S. AND FOREIGN GOVERNMENT REGULATIONS

As a company with business activities around the world, we are subject to a variety of domestic and international legal and regulatory requirements that impact our business, including, for example, regulations governing consumer protection and unfair business practices, contracts, e-commerce, intellectual property, labor and employment, securities, tax, and other laws that are generally applicable to commercial activities.

We are also subject to, or affected by, numerous domestic and foreign laws, regulations and industry standards that regulate direct marketing activities, including those that address privacy, data security and unsolicited marketing communications. Examples of some of these laws and regulations that may be applied to, or affect, our business or the businesses of our clients include the following:

- The Financial Services Modernization Act of 1999, or Gramm-Leach-Bliley Act (GLB), which, among other things, regulates the use for marketing purposes of non-public personal financial information of consumers that is held by financial institutions. Although Harte-Hanks is not considered a financial institution, many of our clients are subject to the GLB. The GLB also includes rules relating to the physical, administrative and technological protection of non-public personal financial information.

- The Health Insurance Portability and Accountability Act of 1996 (HIPAA), which regulates the use of personal health information for marketing purposes and requires reasonable safeguards designed to prevent intentional or unintentional use or disclosure of protected health information.

- Federal and state laws governing the use of the Internet and regulating telemarketing, including the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN-SPAM), which regulates commercial email and requires that commercial emails give recipients an opt-out method. Telemarketing activities are regulated by, among other requirements, the Federal Trade Commission's Telemarketing Sales Rule (TSR), the Federal Communications Commission's Telephone Consumer Protection Act (TCPA) and various state do-not-call laws.

- A number of states in the U.S. have passed versions of security breach notification laws, which generally require timely notifications to affected persons in the event of data security breaches or other unauthorized access to certain types of protected personal data.

- The Fair Credit Reporting Act (FCRA), which governs among other things, the sharing of consumer report information, access to credit scores, and requirements for users of consumer report information.

- The Fair and Accurate Credit Transactions Act of 2003 (FACT Act), which amended the FCRA and requires, among other things, consumer credit report notice requirements for creditors that use consumer credit report information in connection with risk-based credit pricing actions and also prohibits a business that receives consumer information from an affiliate from using that information for marketing purposes unless the consumer is first provided a notice and an opportunity to direct the business not to use the information for such marketing purposes, subject to certain exceptions.

- The European Union (EU) data protection laws, including the comprehensive EU Directive on Data Protection (1995), which imposes a number of obligations with respect to use of personal data, and includes a prohibition on the transfer of personal information from the EU to other countries that do not provide consumers with an "adequate" level of privacy or security. The EU standard for adequacy is generally stricter and more comprehensive than that of the U.S. and most other countries.

There are additional consumer protection, privacy and data security regulations domestically and in other countries in which we or our clients do business. These laws regulate the collection, use, disclosure and

retention of personal data and may require consent from consumers and grant consumers other rights, such as the ability to access their personal data and to correct information in the possession of data controllers. We and many of our clients also belong to trade associations that impose guidelines that regulate direct marketing activities, such as the Direct Marketing Association's Commitment to Consumer Choice.

Federal, state and foreign governmental and industry organizations continue to consider new legislative and regulatory proposals that would impose additional restrictions on direct marketing services and products. We anticipate that such proposals will continue to be introduced in the future, some of which may be adopted. In addition, our business may be affected by the impact of these restrictions on our clients and their marketing activities. These additional regulations could increase compliance requirements and restrict or prevent the collection, management, aggregation, transfer, use or dissemination of information or data that is currently legally available. Additional regulations may also restrict or prevent current practices regarding unsolicited marketing communications. For example, many states are considering implementing do-not-mail legislation that could impact our Direct Marketing and Shoppers businesses and the businesses of our clients and customers. In addition, public interest in individual privacy rights and data security may result in the adoption of further voluntary industry guidelines that could impact our direct marketing activities and business practices.

We cannot predict the scope of any new legislation, regulations or industry guidelines or how courts may interpret existing and new laws. Additionally, enforcement priorities by governmental authorities may change and also impact our business. Compliance with regulations is costly and time-consuming, and we may encounter difficulties, delays or significant expenses in connection with our compliance. There could be a material adverse impact on our business due to the enactment or enforcement of legislation or industry regulations, the issuance of judicial or governmental interpretations, enforcement priorities of governmental agencies or a change in customs arising from public concern over consumer privacy and data security issues.

INTELLECTUAL PROPERTY RIGHTS

Our intellectual property assets include, for example, trademarks and service marks that identify our company and our products and services, software and other technology that we develop, our proprietary collections of data and intellectual property licensed from third parties, such as prospect list providers. We generally seek to protect our intellectual property through a combination of license agreements and trademark, service mark, copyright, patent and trade secret laws. We also enter into confidentiality agreements with many of our employees, vendors and clients and seek to limit access to and distribution of intellectual property and other proprietary information. We pursue the protection of our trademarks and other intellectual property in the United States and internationally. We have also filed certain patent applications in the United States.

Despite our efforts to protect our intellectual property, unauthorized parties may attempt to copy or otherwise obtain and use our proprietary information and technology. Monitoring unauthorized use of our intellectual property is difficult and unauthorized use of our intellectual property may occur. We cannot be certain that patents or trademark registrations will be issued, nor can we be certain that any issued patents or trademark registrations will give us adequate protection from competing products. For example, issued patents may be circumvented or challenged and declared invalid or unenforceable. In addition, others may develop competing technologies or databases on their own. Moreover, there is no assurance that our confidentiality agreements with our employees or third parties will be sufficient to protect our intellectual property and proprietary information.

We may also be subject to infringement claims against us by third parties and may incur substantial costs and devote significant management resources in responding to such claims. We are obligated under some agreements to indemnify our clients as a result of claims that we infringe on the proprietary rights of third parties. These costs and diversions could cause our business to suffer. If any party asserts an infringement claim, we may need to obtain licenses to the disputed intellectual property. We cannot assure you, however, that we will be able to obtain these licenses on commercially reasonable terms or that we will be able to obtain any licenses at all. The failure to obtain necessary licenses or other rights may have an adverse affect on our ability to provide our products and services.

EMPLOYEES

As of December 31, 2007, Harte-Hanks employed 6,579 full-time employees and 447 part-time employees, as follows: Direct Marketing – 4,365 full-time and 105 part-time employees; Shoppers – 2,193 full-time and 341 part-time employees; and corporate office – 21 full-time employees and 1 part-time employee. None of the work force is represented by labor unions. We consider our relations with our employees to be good.

ITEM 1A. RISK FACTORS

Cautionary Note Regarding Forward-Looking Statements

This report, including the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), contains "forward-looking statements" within the meaning of the federal securities laws. All such statements are qualified by this cautionary note, which is provided pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 (1933 Act) and Section 21E of the 1934 Act. Forward-looking statements may also be included in our other public filings, press releases, our website and oral and written presentations by management. Statements other than historical facts are forward-looking and may be identified by words such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "seeks," "could," "intends," or words of similar meaning. Examples include statements regarding (1) our strategies and initiatives, (2) our financial outlook, (3) planned adjustments to our cost structure and other actions designed to respond to market conditions and improve our performance, (4) expectations for our businesses and for the industries in which we operate, including with regard to the recent negative performance trends in our Shoppers business, (5) competitive factors, (6) acquisition and development plans, (7) our stock repurchase program, (8) expectations regarding legal proceedings and other contingent liabilities, and (9) other statements regarding future events, conditions or outcomes.

These forward-looking statements are based on current information, expectations and estimates and involve risks, uncertainties, assumptions and other factors that are difficult to predict and that could cause actual results to vary materially from what is expressed in or indicated by the forward-looking statements. In that event, our business, financial condition, results of operations or liquidity could be materially adversely affected and investors in our securities could lose part or all of their investments. Some of these risks, uncertainties, assumptions and other factors can be found in our filings with the SEC, including the factors discussed below in this "Item 1A. Risk Factors" and any updates thereto in our Forms 10-Q. The forward-looking statements included in this report and those included in our other public filings, press releases, our website and oral and written presentations by management are made only as of the respective dates thereof, and we undertake no obligation to update publicly any forward-looking statement in this report or in other documents, our website or oral statements for any reason, even if new information becomes available or other events occur in the future.

In addition to the information set forth elsewhere in this report, including in the MD&A section, the factors described below should be considered carefully in making any investment decisions with respect to our securities. The risks described below are not the only ones we face or may face in the future. Additional risks and uncertainties that are not presently anticipated, or that we may currently believe are immaterial, could also impair our business operations and financial performance.

We face significant competition for individual projects, entire client relationships and advertising dollars in general.

Our Direct Marketing business faces significant competition in all of its offerings and within each of its vertical markets. Direct marketing is a dynamic business, subject to technological advancements, high turnover of client personnel who make buying decisions, client consolidations, changing client needs and preferences, continual development of competing products and services and an evolving competitive landscape. This competition comes from numerous local, national and international direct marketing and advertising companies against whom we compete for individual projects, entire client relationships and marketing expenditures by clients and prospective clients. We also compete against print and electronic media and other forms of advertising for

marketing and advertising dollars in general. In addition, our ability to attract new clients and to retain existing clients may, in some cases, be limited by clients' policies on or perceptions of conflicts of interest. These policies can prevent us from performing similar services for competing products or companies. Our Shoppers business competes for advertising, as well as for readers, with other print and electronic media. Competition comes from local and regional newspapers, magazines, radio, broadcast, satellite and cable television, other shoppers, the internet, other communications media and other advertising printers that operate in our markets. The extent and nature of such competition are, in large part, determined by the location and demographics of the markets targeted by a particular advertiser and the number of media alternatives in those markets. Our failure to improve our current processes or to develop new products and services could result in the loss of our clients to current or future competitors. In addition, failure to gain market acceptance of new products and services could adversely affect our growth.

Current and future competitors may have significantly greater financial and other resources than we do, and they may sell competing products and services at lower prices or at lower profit margins, resulting in pressures on our prices and margins.

The sizes of our competitors vary across market segments. Therefore, some of our competitors may have significantly greater financial, technical, marketing or other resources than we do in one or more of our market segments, or overall. As a result, our competitors may be in a position to respond more quickly than we can to new or emerging technologies and changes in customer requirements, or may devote greater resources than we can to the development, promotion, sale and support of products and services. Moreover, new competitors or alliances among our competitors may emerge and potentially reduce our market share, revenue or margins. Some of our competitors also may choose to sell products or services competitive to ours at lower prices by accepting lower margins and profitability, or may be able to sell products or services competitive to ours at lower prices given proprietary ownership of data, technical superiority or economies of scale. Price reductions or pricing pressure by our competitors could negatively impact our margins and results of operations, and could also harm our ability to obtain new customers on favorable terms.

We must maintain technological competitiveness, continually improve our processes and develop and introduce new products and services in a timely and cost-effective manner.

We believe that our success depends on, among other things, maintaining technological competitiveness in our Direct Marketing and Shopper products, processing functionality and software systems and services. Technology changes rapidly and there are continuous improvements in computer hardware, network operating systems, programming tools, programming languages, operating systems, database technology and the use of the Internet. Advances in information technology may result in changing client preferences for products and product delivery formats in our industry. We must continually improve our current processes and develop and introduce new products and services in order to match our competitors' technological developments and other improvements in competing product and service offerings and the increasingly sophisticated requirements of our clients. We may be unable to successfully identify, develop and bring new and enhanced services and products to market in a timely and cost-effective manner, such services and products may not be commercially successful and services, products and technologies developed by others may render our services and products noncompetitive or obsolete.

***Our success depends on our ability to consistently and effectively deliver our products and services to our clients*.**

Our success depends on our ability to effectively and consistently staff and execute client engagements within the agreed upon timeframe and budget. Depending on the needs of our clients, our Direct Marketing engagements may require customization, integration and coordination of a number of complex product and service offerings and execution across many of our facilities worldwide. Moreover, in some of our engagements, we rely on subcontractors and other third parties to provide a portion of our overall services, and we cannot guarantee that these third parties will effectively deliver their services or that we will have adequate recourse against these third parties in the event they fail to effectively deliver their services. Other contingences and events outside of our control may also impact our ability to provide our products and services. Our failure

to effectively and timely staff, coordinate and execute our client engagements may adversely impact existing client relationships, the amount or timing of payments from our clients, our reputation in the marketplace and ability to secure additional business and our resulting financial performance. In addition, our contractual arrangements with our Direct Marketing clients and other customers may not provide us with sufficient protections against claims for lost profits or other claims for damages.

If we lose key management or are unable to attract and retain the talent required for our business, our operating results could suffer.
Our prospects depend in large part upon our ability to attract, train and retain experienced technical, client services, sales, consulting, research and development, marketing, administrative and management personnel. While the demand for personnel is dependent on employment levels, competitive factors and general economic conditions, qualified personnel historically have been in great demand and from time to time and in the foreseeable future may remain a limited resource. The loss or prolonged absence of the services of these individuals could have a material adverse effect on our business, financial position or operating results.

We have previously experienced, and may experience in the future, reduced demand for our products and services because of general economic conditions, the financial conditions and marketing budgets of our clients and other factors that may impact the industry verticals that we serve.
Economic downturns often severely affect the marketing services industry. In the past, our customers have responded, and may respond in the future, to weak economic conditions by reducing their marketing budgets, which are generally discretionary in nature and easier to reduce in the short-term than other expenses. In addition, revenues from our Shoppers business are largely dependent on local advertising expenditures in the markets in which they operate. Such expenditures are substantially affected by the strength of the local economies in those markets. Direct Marketing revenues are dependent on national, regional and international economies and business conditions. A lasting economic recession or downturn in the United States economy and the economies we operate in abroad, could have material adverse effects on our business, financial position or operating results. Similarly, there may be industry or company-specific factors that negatively impact our clients and prospective clients or their industries and result in reduced demand for our products and services. We may also experience reduced demand as a result of consolidation of clients and prospective clients in the industry verticals that we serve.

Our Shoppers business is geographically concentrated and is subject to the California and Florida economies.
Our Shoppers business is concentrated geographically in California and Florida. An economic downturn in these states or a large disaster, such as a flood, hurricane, earthquake or other disaster or condition that disables our facilities, immobilizes the United States Postal Service or causes a significant negative change in the economies of these regions, could have a material adverse effect on our business, financial position or operating results.

Our business plan requires us to effectively manage our costs. If we do not achieve our cost management objectives, our financial results could be adversely affected.
Our business plan and expectations for the future require that we effectively manage our cost structure, including our operating expenses and capital expenditures across our operations. To the extent that we do not effectively manage our costs, our financial results may be adversely affected.

Privacy, security and other direct marketing regulatory requirements may prevent or impair our ability to offer our products and services.
We are subject to, or affected by, numerous laws, regulations and industry standards that regulate direct marketing activities, including those that address privacy, data security and unsolicited marketing communications. Please refer to the section above entitled, "U.S. and Foreign Government Regulations," for additional information regarding these regulations.

Federal, state and foreign governmental and industry organizations continue to consider new legislative and regulatory proposals that would impose additional restrictions on direct marketing services and products. We anticipate that such proposals will continue to be introduced in the future, some of which may be adopted. In addition, our business may be affected by the impact of these restrictions on our clients and their marketing activities. These additional regulations could increase compliance requirements and restrict or prevent the collection, management, aggregation, transfer, use or dissemination of information or data that is currently legally available. Additional regulations may also restrict or prevent current practices regarding unsolicited marketing communications. For example, many states are considering implementing do-not-mail legislation that could impact our Direct Marketing and Shoppers businesses and the businesses of our clients and customers. In addition, public interest in individual privacy rights and data security may result in the adoption of further voluntary industry guidelines that could impact our direct marketing activities and business practices.

We cannot predict the scope of any new legislation, regulations or industry guidelines or how courts may interpret existing and new laws. Additionally, enforcement priorities by governmental authorities may change and also impact our business. Compliance with regulations is costly and time-consuming, and we may encounter difficulties, delays or significant expenses in connection with our compliance. There could be a material adverse impact on our business due to the enactment or enforcement of legislation or industry regulations, the issuance of judicial or governmental interpretations, enforcement priorities of governmental agencies or a change in customs arising from public concern over consumer privacy and data security issues.

Consumer perceptions regarding the privacy and security of their data may prevent or impair our ability to offer our products and services.

Pursuant to various federal, state, foreign and industry regulations, consumers have control as to how certain data regarding them is collected, used and shared for marketing purposes. If due to privacy or security concerns, consumers exercise their ability to prevent such data collection, use or sharing, this may impair our ability to provide direct marketing to those consumers and limit our clients' requirements for our services. Additionally, privacy and security concerns may limit consumers' voluntarily providing data to our customers or marketing companies. Some of our services depend on voluntarily provided data and may be impaired without such data.

Our reputation and business results may be adversely impacted if we, or subcontractors upon whom we rely, do not effectively protect sensitive personal information of our clients and our clients' customers.

Current privacy and data security laws and industry standards impact the manner in which we capture, handle, analyze and disseminate customer and prospect data as part of our client engagements. In many instances, client contracts also mandate privacy and security practices. If we fail to effectively protect and control sensitive personal information (such as personal health information, social security numbers or credit card numbers) of our clients and their customers or prospects in accordance with these requirements, we may incur significant expenses, suffer reputational harm and loss of business, and, in certain cases, be subjected to regulatory or governmental sanctions or litigation. These risks may be increased due to our reliance on subcontractors and other third parties in providing a portion of our overall services in certain engagements. We cannot guarantee that these third parties will effectively protect and handle sensitive personal information or other confidential information, or that we will have adequate recourse against these third parties in that event.

We may not be able to adequately protect our information systems.

Our ability to protect our information systems against damage from a data loss, security breach, computer virus, fire, power loss, telecommunications failure or other disaster is critical to our future success. Some of these systems may be outsourced to third-party providers from time to time. Any damage to our information systems that causes interruptions in our operations or a loss of data could affect our ability to meet our clients' requirements, which could have a material adverse effect on our business, financial position or operating results. While we take precautions to protect our information systems, such measures may not be effective and existing measures may become inadequate because of changes in future conditions.

Breaches of security, or the perception that e-commerce is not secure, could harm our business and reputation.

Business-to-business and business-to-consumer electronic commerce, including that which is Internet-based, requires the secure transmission of confidential information over public networks. Some of our products and services are accessed through the Internet. Security breaches in connection with the delivery of our products and services, or well-publicized security breaches that may affect us or our industry, such as database intrusion, could be detrimental to our business, operating results and financial condition. We cannot be certain that advances in criminal capabilities, new discoveries in the field of cryptography or other developments will not compromise or breach the technology protecting the information systems that access our products, services and proprietary database information.

Data suppliers could withdraw data that we rely on for our products and services.

We purchase or license much of the data we use. There could be a material adverse impact on our Direct Marketing business if owners of the data we use were to withdraw or cease to allow access to the data, or materially restrict the authorized uses of their data. Data providers could withdraw their data if there is a competitive reason to do so, if there is pressure from the consumer community or if additional legislation is passed restricting the use of the data. We also rely upon data from other external sources to maintain our proprietary and non-proprietary databases, including data received from customers and various government and public record sources. If a substantial number of data providers or other key data sources were to withdraw or restrict their data, if we were to lose access to data due to government regulation, or if the collection of data becomes uneconomical, our ability to provide products and services to our clients could be materially adversely affected, which could result in decreased revenues, net income and earnings per share.

We must successfully evaluate acquisition targets and integrate acquisitions.

We frequently evaluate acquisition opportunities to expand our product and service offerings and geographic locations, including potential international acquisitions. Acquisition activities, even if not consummated, require substantial amounts of management time and can distract from normal operations. In addition, we may be unable to achieve the profitability goals, synergies and other objectives initially sought in acquisitions, and any acquired assets, data or businesses may not be successfully integrated into our operations. Acquisitions may result in the impairment of relationships with employees and customers. Moreover, although we review and analyze assets or companies we acquire, such reviews are subject to uncertainties and may not reveal all potential risks and we may incur unanticipated liabilities and expenses as a result of our acquisition activities. The failure to identify appropriate candidates, to negotiate favorable terms, or to successfully integrate future acquisitions into existing operations could result in not achieving planned revenue growth and could negatively impact our net income and earnings per share.

We are vulnerable to increases in paper prices.

In recent years, newsprint prices have fluctuated widely. We maintain, on average, less than 30 days of paper inventory and do not purchase our paper pursuant to long-term paper contracts. Because we have a limited ability to protect ourselves from fluctuations in the price of paper or to pass increased costs along to our clients, these fluctuations could materially affect the results of our operations.

We are vulnerable to increases in postal rates and disruptions in postal services.

Our Shoppers and Direct Marketing services depend on the United States Postal Service to deliver products. Our Shoppers are delivered by Standard Mail, and postage is the second largest expense, behind payroll, in our Shoppers business. Standard postage rates have increased in recent years and are expected to increase again in the first half of 2008. Overall Shoppers postage costs may increase as a result of increases in postage rates, circulation and insert volumes. Postage rates also influence the demand for our Direct Marketing services even though the cost of mailings is typically borne by our clients and is not directly reflected in our revenues or expenses. Accordingly, future postal increases or disruptions in the operations of the U.S. Postal Service may have an adverse impact on us.

Our indebtedness may adversely impact our ability to react to changes in our business or changes in general economic conditions.

The amount of our indebtedness and the terms under which we have borrowed money under our credit facilities or other agreements could have important consequences for our business. Our debt covenants require that we maintain certain financial measures and ratios. As a result of these covenants and ratios, we may be limited in the manner in which we can conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs. A failure to comply with these restrictions or to maintain the financial measures and ratios contained in the debt agreements could lead to an event of default that could result in an acceleration of outstanding indebtedness. In addition, the amount and terms of our indebtedness could:

- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate, including limiting our ability to invest in our strategic initiatives, and, consequently, place us at a competitive disadvantage;

- reduce the availability of our cash flows that would otherwise be available to fund working capital, capital expenditures, acquisitions and other general corporate purposes; and

- result in higher interest expense in the event of increases in interest rates because some of our borrowings are at variable rates of interest, as discussed below under "Interest rate increases could affect our results of operations, cash flows and financial position."

We may incur additional indebtedness in the future and, if new debt is added to our current debt levels, the above risks could be increased.

Interest rate increases could affect our results of operations, cash flows and financial position.

Interest rate movements in Europe and the United States can affect the amount of interest we pay related to our debt and the amount we earn on cash equivalents. Our primary interest rate exposure is to interest rate fluctuations in Europe, specifically Eurodollar rates due to their impact on interest related to our credit facilities. As of December 31, 2007, we had $259.1 million of debt outstanding, all of which was at variable interest rates. We manage a portion of our interest rate exposures by entering into an interest rate swap for a total notional amount of $150.0 million, resulting in a net amount of $109.1 million of variable-rate debt at December 31, 2007. To the extent that we have debt with variable interest rates that is not hedged, our results of operations, cash flows and financial position could be materially adversely affected by significant increases in interest rates. We also have exposure to interest rate fluctuations in the United States, specifically money market, commercial paper and overnight time deposit rates, as these affect our earnings on excess cash. Even with the offsetting increase in earnings on excess cash in the event of an interest rate increase, we cannot be assured that future interest rate increases will not have a material adverse impact on our business, financial position or operating results.

We could fail to adequately protect our intellectual property rights and may face claims for intellectual property infringement.

Our ability to compete effectively depends in part on the protection of our technology, products, services and brands through intellectual property right protections, including patents, copyrights, database rights, trade secrets and trademarks. The extent to which such rights can be protected and enforced varies in different jurisdictions. There is also a risk of litigation relating to our use or future use of intellectual property rights of third parties. Third-party infringement claims and any related litigation against us could subject us to liability for damages, restrict us from using and providing our technologies, products or services or operating our business generally, or require changes to be made to our technologies, products and services. Please refer to the section above entitled, "Intellectual Property Rights," for additional information regarding our intellectual property and associated risks.

Our international operations subject us to risks associated with operations outside the U.S.
Harte Hanks Direct Marketing conducts business outside of the United States. During 2007, approximately 8.5% of Harte Hanks Direct Marketing's revenues were derived from businesses outside the United States, primarily Europe, Asia and South America. We may expand our international operations in the future as part of our growth strategy. Accordingly, our future operating results could be negatively affected by a variety of factors, some of which are beyond our control, including:

- social, economic and political instability;
- changes in U.S. and foreign governmental legal requirements or policies resulting in burdensome government controls, tariffs, restrictions, embargoes or export license requirements;
- inflation;
- the potential for nationalization of enterprises;
- potentially adverse tax treatment;
- less favorable foreign intellectual property laws that would make it more difficult to protect our intellectual properties from appropriation by competitors;
- more onerous or differing data privacy and security requirements or other marketing regulations;
- longer payment cycles for sales in foreign countries; and
- the costs and difficulties of managing international operations.

In addition, exchange rate movements may have an impact on our future costs or on future cash flows from foreign investments. We have not entered into any foreign currency forward exchange contracts or other derivative instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates. The various risks that are inherent in doing business in the United States are also generally applicable to doing business outside of the United States, and may be exaggerated by the difficulty of doing business in numerous sovereign jurisdictions due to differences in culture, laws and regulations.

We must maintain effective internal controls.
In designing and evaluating our internal controls over financial reporting, we recognize that any internal control or procedure, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives and that no system of internal controls can be designed to provide absolute assurance of effectiveness. If we fail to maintain a system of effective internal controls, it could have a material adverse effect on our business, financial position or operating results. Additionally, adverse publicity related to a failure in our internal controls over financial reporting could have a negative impact on our reputation and business.

Fluctuation in our revenue and operating results may impact our stock price.
From time to time, we may provide forward-looking statements regarding our anticipated or targeted financial and operating performance, including with respect to our earnings per share and revenue growth. Fluctuations in our quarterly revenues and operating results in any future period that fall below the performance indicated by our forward-looking statements or the expectations of securities analysts and investors could cause a decline in our stock price. These fluctuations could be caused by a variety of factors, including unanticipated variations in the size, budget, or progress toward the completion of our engagements, variability in the market demand for our services, client consolidations, the unanticipated termination of several major client engagements or other factors discussed in this Item 1A. "Risk Factors."

The granting of stock-based awards to our employees affects our expenses and our stock price.
Effective January 1, 2006, we became subject to new stock-based compensation accounting rules that require that compensation costs related to stock-based payment transactions, including stock options, restricted stock and performance stock units, be recognized in our financial statements. Previously, we accounted for stock-based compensation of employees using the intrinsic value method, which resulted in no compensation expense charged against income for stock option grants to employees where the exercise price was equal to the market price of the underlying stock at the date of grant. Beginning January 1, 2006, grants of options, stock or other forms of equity have been recognized as compensation expense in our statement of operations, increasing our

reported expenses for the same activities and negatively impacting our earnings per share. These increased expenses could affect the price of our common shares.

War or terrorism could affect our business.
War and/or terrorism or the threat of war and/or terrorism involving the United States could have a significant impact on our business, financial position or operating results. War or the threat of war could substantially affect the levels of advertising expenditures by clients in each of our businesses. In addition, each of our businesses could be affected by operation disruptions and a shortage of supplies and labor related to such a war or threat of war.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters are located in San Antonio, Texas and we occupy approximately 17,000 square feet of leased premises at that location. Our business is conducted in facilities worldwide containing aggregate space of approximately 3.6 million square feet. Approximately 3.4 million square feet are held under leases, which expire at dates through 2023. The balance of the properties, used in our Southern California Shopper operations and Hasselt, Belgium Direct Marketing operations, are owned.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings in the course of conducting our businesses and, from time to time, we may become involved in additional claims and lawsuits incidental to our businesses. In the opinion of management, after consultation with counsel, any ultimate liability arising out of currently pending claims and lawsuits is not currently expected to have a material effect on our consolidated financial position or results of operations. Nevertheless, we cannot predict the impact of future developments affecting our pending or future claims and lawsuits.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock

Our common stock is listed on the NYSE (symbol: HHS). The reported high and low quarterly sales price ranges for 2007 and 2006 were as follows:

	2007		2006	
	High	**Low**	**High**	**Low**
First Quarter	28.78	25.81	31.00	25.60
Second Quarter	27.85	25.07	28.21	24.33
Third Quarter	26.67	19.62	27.17	22.35
Fourth Quarter	20.52	15.50	27.84	25.03

In 2007, quarterly dividends were paid at the rate of 7.0 cents per share. In 2006, quarterly dividends were paid at the rate of 6.0 cents per share.

In January 2008, we announced an increase in the regular quarterly dividend from 7.0 cents per share to 7.5 cents per share, payable March 14, 2008 to holders of record on February 29, 2008.

As of February 1, 2008, there are approximately 2,750 holders of record.

Issuer Purchases of Equity Securities

The following table contains information about our purchases of our equity securities during the fourth quarter of 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan(1)	Maximum Number of Shares that May Yet Be Purchased Under the Plan(2)
October 1 – 31, 2007	860,000	$ 18.69	860,000	5,651,991
November 1 – 30, 2007	1,564,136	$ 16.61	1,451,300	4,200,691
December 1 – 31, 2007(3)	1,300,000	$ 16.97	1,300,000	2,900,691
Total	3,724,136	$ 17.21	3,611,300	

(1) During the fourth quarter of 2007, 3,611,300 shares were purchased through our stock repurchase program that was publicly announced in January 1997. Under this program shares can be purchased in the open market or through privately negotiated transactions. As of December 31, 2007, our Board had authorized the repurchase of up to 61.9 million shares of our outstanding common stock. As of December 31, 2007, we had repurchased a total of 59.0 million shares at an average price of $19.11 per share under this program.

(2) Subsequent to year end, on January 29, 2008, our Board authorized an additional 12.5 million shares under our stock repurchase program, bringing the total repurchase authorization to 74.4 million shares.

(3) On December 10, 2007, we purchased 0.1 million shares of our common stock from The Shelton Family Foundation (Foundation) and 0.1 million shares of our common stock from The Scottie Ann Shelton Trust (Trust). These purchases were made at a price of $16.93 per share (the closing price per share of our common stock on December 10, 2007). Mr. Larry D. Franklin, the Chairman of our Board of Directors, and David L. Copeland, a member of our Board of Directors, both served as directors on the Foundation and trustees of the Trust at the time of these purchases and both disclaim beneficial ownership of any shares held by the Foundation or the Trust. In January 2008, Mr. Franklin resigned from the Board of the Foundation.

Comparison of Stockholder Returns

The material under this heading is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any filing under the 1933 Act or the 1934 Act, whether made before or after the date hereof and irrespective of any general incorporation language in such filing.

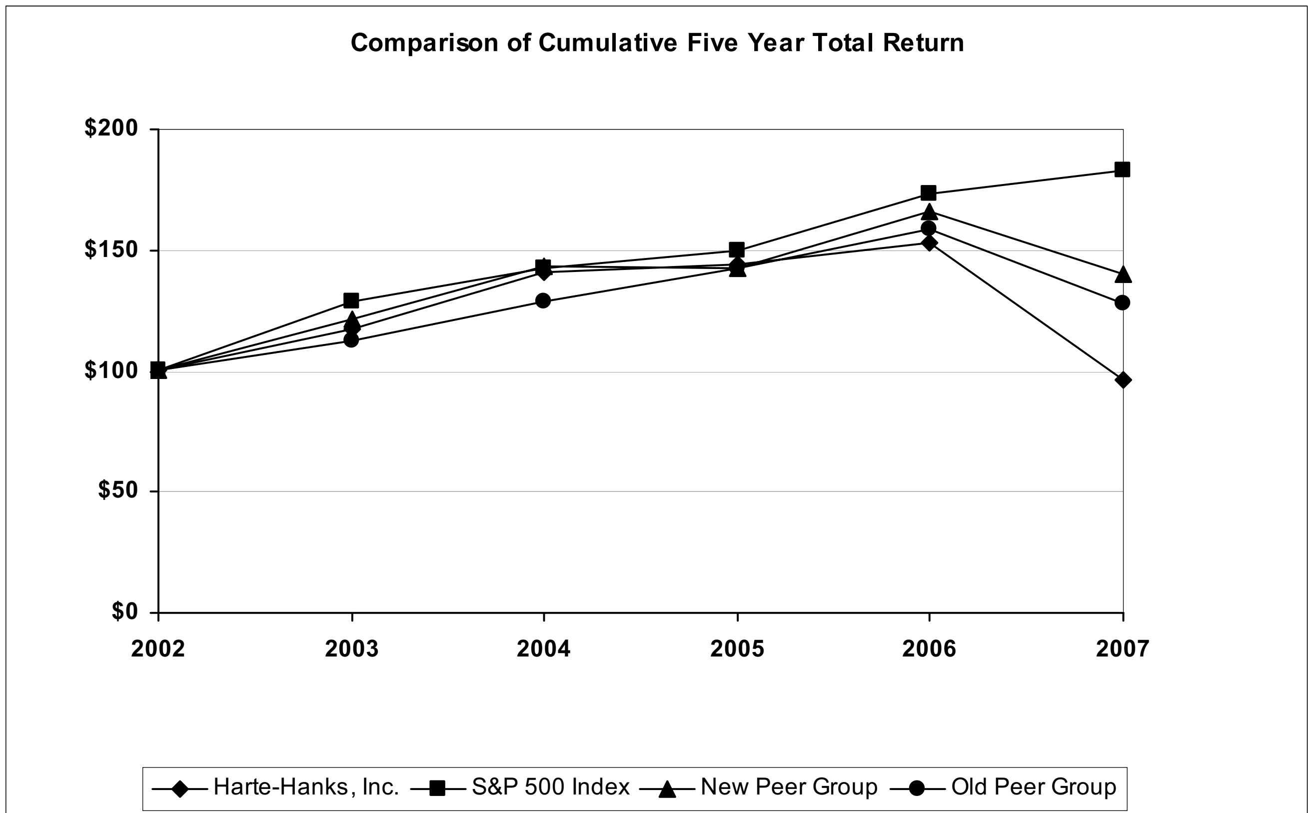
The following graph compares the cumulative total return of our common stock during the period December 31, 2002 to December 31, 2007 with the Standard & Poor's 500 Stock Index (S&P 500 Index) and with two peer groups. We made modifications to our peer group in this 2007 Annual Report on Form 10-K compared to our previous peer group in order to be consistent with the modified 2008 peer group used by our Compensation Committee in evaluating management compensation.

Our former peer group included Acxiom Corporation, Catalina Marketing Corporation, Choicepoint, Inc., Convergys Corporation, Equifax, Inc., Fair Isaac and Company, Incorporated, infoUSA, Inc., Sykes Enterprises, Incorporated, and Teletech Holdings, Inc.

Our current peer group includes Acxiom Corporation, Alliance Data Systems Corporation, Catalina Marketing Corporation, Choicepoint, Inc., Consolidated Graphics, Inc., Dun & Bradstreet Corporation, Equifax, Inc., Fair Isaac and Company, Incorporated, ICT Group, Inc., infoUSA, Inc., Interpublic Group of Companies, Inc., PC Mall, Inc., R.H. Donnelley Corporation, Source Interlink Companies, Inc., Sykes Enterprises, Incorporated, Teletech Holdings, Inc., Valassis Communications, Inc., ValueClick, Inc., and Viad Corp.

The S&P Index includes 500 United States companies in the industrial, transportation, utilities and financial sectors and is weighted by market capitalization. The peer groups are also weighted by market capitalization.

The graph depicts the results of investing $100 in our common stock, the S&P 500 Index and the peer groups at closing prices on December 31, 2002.



	Base Period	Years Ending				
	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
Harte-Hanks, Inc.	100	117.23	140.97	144.25	152.80	96.64
S&P 500 Index	100	128.68	142.69	149.70	173.34	182.86
New Peer Group	100	121.11	143.30	142.51	166.03	140.12
Old Peer Group	100	112.11	129.12	142.27	158.91	128.32

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Financial Summary

In thousands, except per share amounts	2007	2006	2005	2004	2003
Statement of Operations Data					
Revenues	$1,162,886	$1,184,688	$1,134,993	$1,030,461	$ 944,576
Operating expenses					
Payroll, production and distribution	871,468	874,088	825,568	755,715	692,170
Advertising, selling, general and administrative	89,787	90,516	88,067	80,682	75,886
Depreciation	33,195	31,566	29,918	28,169	29,433
Intangible amortization	3,509	2,466	1,427	600	600
Total operating expenses	997,959	998,636	944,980	865,166	798,089
Operating income	164,927	186,052	190,013	165,295	146,487
Interest expense, net	12,453	6,102	1,760	679	687
Net Income	$ 92,640	$ 111,792	$ 114,458	$ 97,568	$ 87,362
Earnings per common share—diluted	$ 1.26	$ 1.39	$ 1.34	$ 1.11	$ 0.97
Cash dividends per common share	$ 0.28	$ 0.24	$ 0.20	$ 0.16	$ 0.12
Weighted-average common and common equivalent shares outstanding—diluted	73,703	80,646	85,406	87,806	89,982
Segment Data					
Revenues					
Direct Marketing	$ 732,461	$ 709,728	$ 694,558	$ 641,214	$ 584,804
Shoppers	430,425	474,960	440,435	389,247	359,772
Total revenues	$1,162,886	$1,184,688	$1,134,993	$1,030,461	$ 944,576
Operating income					
Direct Marketing	$ 108,796	$ 109,458	$ 108,095	$ 90,856	$ 76,641
Shoppers	70,784	88,814	94,231	85,857	78,007
General corporate	(14,653)	(12,220)	(12,313)	(11,418)	(8,161)
Total operating income	$ 164,927	$ 186,052	$ 190,013	$ 165,295	$ 146,487
Capital expenditures	$ 28,217	$ 33,708	$ 28,215	$ 35,146	$ 31,915
Balance sheet data (at end of period)					
Property, plant and equipment, net	$ 112,354	$ 116,591	$ 112,911	$ 113,770	$ 97,747
Goodwill and other intangibles, net	564,522	568,795	519,419	460,238	439,823
Total assets	951,926	969,285	889,663	828,353	759,130
Total long-term debt	259,125	205,000	62,000	-	5,000
Total stockholders' equity	$ 408,512	$ 493,476	$ 561,346	$ 571,799	$ 555,598

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note About Forward-Looking Statements

This report, including this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), contains "forward-looking statements" within the meaning of the federal securities laws. All such statements are qualified by the cautionary note included under Item 1A. above, which is provided pursuant to the safe harbor provisions of Section 27A of the 1933 Act and Section 21E of the 1934 Act. Actual results may vary materially from what is expressed in or indicated by the forward-looking statements.

Overview

The following MD&A section is intended to help the reader understand the results of operations and financial condition of Harte-Hanks, Inc. (Harte-Hanks). This section is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to the financial statements.

Harte-Hanks is a worldwide direct and targeted marketing company that provides direct marketing services and shopper advertising opportunities to a wide range of local, regional, national and international consumer and business-to-business marketers. We manage our operations through two operating segments: Direct Marketing and Shoppers.

In 2007, Harte-Hanks Direct Marketing had revenues of $732.5 million, which accounted for approximately 63% of our total revenues. Direct Marketing services are targeted to specific industries or markets with services and software products tailored to each industry or market. Currently, our Direct Marketing business services various vertical markets including retail, high-tech/telecom, financial services, pharmaceutical/healthcare, and a wide range of selected markets. We believe that we are generally able to provide services to new industries and markets by modifying our services and applications as opportunities are presented. Depending on the needs of our clients, our Direct Marketing capabilities are provided in an integrated approach through more than 30 facilities worldwide, more than 10 of which are located outside of the United States. Each of these centers possesses some specialization and is linked with others to support the needs of our clients.

We use various capabilities and technologies to enable our clients to identify, reach, influence and nurture their customers. Harte-Hanks Direct Marketing improves the return on its clients' marketing investment by increasing their prospect and customer value through solutions and services organized around five groupings of integrated activities:

- Information (data collection/management);
- Opportunity (data access/utilization);
- Insight (data analysis/interpretation);
- Engagement (program and campaign creation and development); and
- Interaction (program execution).

We execute these activities by providing a range of products and services including:

- Database design and development;
- Data processing and service bureau;
- Software;
- Data enhancements and list brokerage;
- Analytics, modeling, research and strategy;
- E-Care including online technical support and inbound email management;

- Events management including registration and promotion;
- Website design, management and hosting services;
- Loyalty program management;
- Sales lead management;
- Web-based database marketing;
- Technology databases;
- Creative services;
- Traditional and interactive media planning, placement and buying;
- Fulfillment and distribution;
- Graphics and printing solutions;
- Inbound and outbound telemarketing including telesales and order processing;
- Lettershop services including laser personalization;
- Logistics; and
- Email marketing.

Harte-Hanks Shoppers is North America's largest owner, operator and distributor of shopper publications, based on weekly circulation and revenues. Shoppers are weekly advertising publications delivered free by Standard Mail to households and businesses in a particular geographic area. Shoppers offer advertisers a targeted, cost-effective local advertising system, with virtually 100% penetration in their area of distribution. Shoppers are particularly effective in large markets with high media fragmentation in which major metropolitan newspapers generally have low penetration. Our Shoppers segment also provides advertising and other services online through our websites, *ThePennySaverUSA.com* and *TheFlyer.com*. *PennySaverUSA.com* displays the ads published in the print versions of the *PennySaverUSA.com* (California) and *TheFlyer.com* (Florida) publications, and is a leader in the aggregation of online classified ads from free community papers and shoppers across the country. In 2007, our Shoppers segment had revenues of $430.4 million, which represented 37% of our total revenue.

As of December 31, 2007, our Shoppers are zoned into 1,077 separate editions with total circulation of approximately 13 million in California and Florida each week. As a result of the difficult economic environment in California, we shut down approximately 600,000 of unprofitable circulation at the end of June 2007. This consisted of approximately 380,000 of circulation in the greater Los Angeles market and approximately 220,000 of circulation in the Northern California market. We will continue to evaluate all of our circulation performance, but do not currently anticipate further circulation reductions of this magnitude in the near future. Despite this recent circulation reduction, we continue to believe that future expansions may provide increased revenue opportunities in the long term.

We derive revenues from the sale of direct marketing services and shopper advertising services. As a worldwide business, direct marketing is affected by general national and international economic trends. Our Shoppers operate in regional markets in California and Florida and are largely affected by the strength of the local economies.

Our overall strategy is based on six key elements:

- Being a market leader in each of our businesses;
- Increasing revenues through growing our base businesses;
- Introducing new services and products;
- Entering new markets and making acquisitions;
- Using technology to create competitive advantages; and
- Employing people who understand our clients' business and markets.

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

Results of Operations

Operating results were as follows:

In thousands except per share amounts	2007	% Change	2006	% Change	2005
Revenues	$ 1,162,886	-1.8	$ 1,184,688	4.4	$ 1,134,993
Operating expenses	997,959	-0.1	998,636	5.7	944,980
Operating income	$ 164,927	-11.4	$ 186,052	-2.1	$ 190,013
Net income	$ 92,640	-17.1	$ 111,792	-2.3	$ 114,458
Diluted earnings per share	$ 1.26	-9.4	$ 1.39	3.7	$ 1.34

Year ended December 31, 2007 vs. Year ended December 31, 2006

Revenues

Consolidated revenues decreased 1.8%, to $1,162.9 million, in 2007 when compared to 2006. Our overall results reflect decreased revenues of 9.4% from our Shoppers segment, partially offset by increased revenues of 3.2% from our Direct Marketing segment. The revenue performance from Shoppers was the result of decreased sales in established markets, primarily attributable to the challenging economic environments in the California and Florida geographies in which we operate, circulation reductions, and the discontinuation of commercial printing operations in our Tampa facility. Direct Marketing comparisons were affected by $7.0 million of revenue recognized in the second quarter of 2006 relating to a contract termination fee received from one of our customers in the financial vertical. Excluding revenues from this contract termination, Direct Marketing's revenues in 2007 were up $29.7 million, or 4.2%, and consolidated revenues would have been down 1.3% compared to 2006.

Operating Expenses

Overall operating expenses decreased 0.1%, to $998.0 million, in 2007 compared to 2006. This year-over-year change includes $8.4 million of restructuring and transition costs, including compensation costs recognized during the third quarter of 2007 associated with the announced retirement of our former President and Chief Executive Officer, severance in both businesses and approximately $1.0 million recognized in our Shoppers segment in the second quarter of 2007 related to the shut down of approximately 600,000 of unprofitable circulation at the end of June 2007. The remaining overall decrease in operating expenses was driven by decreased production and labor costs in Shoppers, attributable to the decline in Shoppers revenues. Direct Marketing operating expenses increased $23.4 million, or 3.9%, and general corporate expense increased $2.4 million or 19.9%, while Shoppers operating expenses decreased $26.5 million or 6.9%. Direct Marketing's results were impacted by $2.4 million of operating expense recognized in the second quarter of 2006 as a result of the contract termination discussed above.

Net Income/Earnings Per Share

Net income decreased 17.1%, to $92.6 million, while diluted earnings per share were down 9.4%, to $1.26 per share, in 2007 when compared to 2006. The decrease in net income was a result of decreased operating income, increased interest expense, and a higher effective tax rate in 2007 when compared to 2006.

On a consolidated basis, we incurred $8.4 million of expenses in 2007 related to actions designed to improve short-term performance and better position us for longer-term growth in revenue and profits. In Direct Marketing, actions were aimed at flattening our organizational structure to improve efficiency and bring our sales, marketing and operations closer to our customers. In Shoppers, in addition to the circulation shut down, actions were taken to reduce fixed costs and headcount, and included streamlining our structure from six operating units into three operating units: the California PennySaver unit, the Florida Flyer unit and the Shopper digital unit. For the full year 2007, these costs exceeded the overall benefit we experienced as a result of these initiatives.

Year ended December 31, 2006 vs. Year ended December 31, 2005

Revenues

Consolidated revenues increased 4.4%, to $1,184.7 million, in 2006 when compared to 2005. Our overall results reflect increased revenues of 7.8% from our Shoppers segment and 2.2% from our Direct Marketing segment. The acquisition of *The Flyer*, located in Tampa, Florida (The Tampa Flyer) in April 2005 contributed a little more than a third of the Shoppers revenue growth. The remaining Shoppers revenue increases primarily were the result of improved sales in established markets, year-over-year geographic expansions and household growth in California and Florida, and new products. Direct Marketing results were affected by (i) $7.0 million of revenue recognized in the second quarter of 2006 relating to a contract termination fee received from one of our financial vertical customers that was acquired in 2006, and (ii) a large, complex, world-wide project that was launched and substantially completed in the first quarter of 2005 for a client in the high-tech vertical market.

Operating Expenses

Overall operating expenses increased 5.7%, to $998.6 million, in 2006 compared to 2005. The increase in consolidated operating expenses was a result of increased operating expenses of 11.5% from the Shoppers segment and 2.4% from the Direct Marketing segment, partially offset by a 0.8% decrease in general corporate expense. The primary drivers of the increase in operating expenses were the acquisition of The Tampa Flyer in April 2005, higher Shoppers postage costs due to the postal rate increase in January 2006, higher Shoppers payrolls to support increased revenues, higher circulation volumes and expansions, $7.4 million of stock-based compensation as a result of our adoption of Statement of Financial Accounting Standards (SFAS) No. 123, as revised, *Share-Based Payment* (SFAS 123R), higher paper costs due to higher rates, and expenses related to the contract termination discussed above.

Net Income/Earnings Per Share

Net income decreased 2.3%, to $111.8 million, while diluted earnings per share were up 3.7%, to $1.39 per share, in 2006 when compared to 2005. The decrease in net income was a result of decreased operating income and increased interest expense, partially offset by a lower effective tax rate in 2006 when compared to 2005. In 2006 we began expensing stock options and other equity-compensation, which impacted 2006 diluted earnings per share by approximately $0.06 per share.

Direct Marketing

Direct Marketing operating results were as follows:

In thousands	2007	% Change	2006	% Change	2005
Revenues	$ 732,461	3.2	$ 709,728	2.2	$ 694,558
Operating expenses	623,665	3.9	600,270	2.4	586,463
Operating income	$ 108,796	-0.6	$ 109,458	1.3	$ 108,095

Year ended December 31, 2007 vs. Year ended December 31, 2006

Revenues

Direct Marketing revenues increased $22.7 million, or 3.2%, in 2007 compared to 2006. These results were affected by $7.0 million of revenue recognized in the second quarter of 2006 relating to the contract termination fee discussed above. Excluding revenues from this contract termination, 2007 revenues were up $29.7 million, or 4.2%, compared to 2006. Our high tech/telecom vertical, which was helped by our September 2006 acquisition of Aberdeen Group, Inc. (Aberdeen), was up double-digits, and our select vertical grew in the high-single digits. Our retail vertical was essentially flat, while our pharma/healthcare vertical was down in the low-single digits. Excluding the impact of the contract termination fee, our financial vertical was down in the mid-single digits.

From a service offering perspective, Direct Marketing experienced increased revenues from telesales, market research, software sales, internet services and fulfillment. Partially offsetting these increases were declines in revenues from print, data and database processing, and data sales.

The acquisitions of StepDot Software GmbH in June 2006, Global Address in July 2006 and Aberdeen in September 2006 positively affected our revenues in 2007 compared to 2006. The sale of a print operation in October 2006 negatively affected our revenues in 2007 compared to 2006.

Revenues from our vertical markets in 2007 were impacted by the economic fundamentals of each industry, various market factors, including the demand for services by our clients, and the financial condition of and budgets available to specific clients. In general, revenues for Direct Marketing are affected by general national and international economic trends.

2008 revenues will depend on, among other factors, how successful we are at growing business with existing clients, acquiring new clients, meeting client demands and the strength of the national and international economy. We believe that in the long term we will continue to benefit from marketing and advertising expenditures being moved from other advertising media to the targeted media space, the results of which can be more effectively tracked, enabling measurement of the return on marketing investment. Standard postage rates increased in January 2006 and May 2007 and are expected to increase again in the first half of 2008. Postage rates influence the demand for our Direct Marketing services even though the cost of mailings is borne by our clients and is not directly reflected in our revenues or expenses. There is no assurance that future postal increases will not have an adverse impact on us.

Operating Expenses
Operating expenses increased $23.4 million, or 3.9%, in 2007 compared to 2006. The results were affected by approximately $4.2 million of costs, primarily severance and lease termination costs, recognized in 2007 as part of the restructuring initiative discussed above. Labor costs increased $33.7 million, or 11.4%, in 2007 compared to 2006 due to severance and higher payrolls and temporary labor due to the relative increase in revenues from more labor intensive service lines. Production and distribution costs decreased $14.8 million, or 6.5%, due to lower logistics-related transportation costs and less expense related to printing materials. The shift in revenues from high production cost, less labor intensive work done at our divested print facility to more labor intensive, lower production cost work done at Aberdeen also contributed to the changes in labor and production and distribution costs. General and administrative expense increased $2.5 million, or 5.0%, due primarily to increased employee expenses including travel, recruiting and training costs, increased business service costs and higher bad debt expense due primarily to timing. Depreciation and amortization expense increased $2.0 million, or 7.7%, due to additional intangible amortization related to 2006 acquisitions, primarily Aberdeen, and additional depreciation of assets related to our facility in Manila that was opened in the last half of 2006.

The acquisitions of StepDot Software GmbH in June 2006, Global Address in July 2006 and Aberdeen in September 2006 contributed to the increase in operating expenses in 2007 compared to 2006. The sale of a print operation in October 2006 partially offset the increase in operating expenses in 2007 compared to 2006.

Direct Marketing's largest cost components are labor and transportation costs. Labor costs are partially variable and tend to fluctuate with revenues and the demand for our Direct Marketing services. Fuel costs have increased significantly in the last few years and were near historic levels throughout 2007. Fuel costs are expected to remain at high levels for the foreseeable future which will continue to impact Direct Marketing's total production costs and total operating expenses.

Year ended December 31, 2006 vs. Year ended December 31, 2005

Revenues

Direct Marketing revenues increased $15.2 million, or 2.2%, in 2006 compared to 2005. These results were affected by (i) $7.0 million of revenue recognized in the second quarter of 2006 relating to a contract termination fee received from one of our financial vertical customers that was acquired in the second quarter of 2006, and (ii) a large, complex, world-wide project that was launched and substantially completed in the first quarter of 2005 for a client in the high-tech vertical market. Our pharma/healthcare vertical was up over 15%, and our select vertical grew in the mid-single digits compared to 2005. Retail, our largest vertical in terms of annual revenue, grew in the low single digits. Our financial vertical (excluding the termination fee) was down in the mid-single digits, and our high-tech vertical (excluding the one-time project) was down in the low single digits compared to 2005.

From a service offering perspective, Direct Marketing experienced increased revenues from data processing, software sales, logistics and telesales. Partially offsetting these increases were declines in revenues from account management and database sales.

The acquisitions of StepDot Software GmbH in June 2006, Global Address in July 2006 and Aberdeen in September 2006 positively affected our revenues in 2006 compared to 2005. The sale of a print operation in October 2006 negatively affected our revenues in 2006 compared to 2005.

Operating Expenses

Operating expenses increased $13.8 million, or 2.4%, in 2006 compared to 2005. These results include (i) $3.0 million of operating expense recognized as a result of the contract termination discussed above, and (ii) $3.9 million of stock-based compensation recorded in 2006 as a result of our adoption of SFAS 123R. Excluding these two factors, operating expense increased $6.9 million, or 1.2%. Labor costs increased $7.8 million, or 2.7% in 2006 compared to 2005. Excluding the additional labor costs associated with the contract termination and stock-based compensation, labor costs increased $1.8 million, or 0.6% as salary increases and increased healthcare costs were partially offset by decreased incentive compensation. Production and distribution costs increased $2.0 million, or 0.9%, due to increased outsource costs and production services, partially offset by lower job printing costs. General and administrative expense increased $2.5 million, or 5.2%, due to losses on the sale of a print operation in October 2006, increased facility costs from our new facility in Manila, and higher utility costs at existing facilities. These increases were partially offset by decreased insurance expense, due to better experience, and bad debt expense, primarily due to timing of collections. Depreciation and amortization expense increased $1.6 million, or 6.5%, due to accelerated depreciation of assets associated with the contract termination, additional intangible amortization due to recent acquisitions, depreciation of assets related to the new facility in Manila, and amortization beginning on a new release of our Trillium software.

The acquisitions of StepDot Software GmbH in June 2006, Global Address in July 2006 and Aberdeen in September 2006 also contributed to the increase in our operating expenses in 2006 compared to 2005.

Shoppers

Shoppers operating results were as follows:

In thousands	2007	% Change	2006	% Change	2005
Revenues	$ 430,425	-9.4	$ 474,960	7.8	$ 440,435
Operating expenses	359,641	-6.9	386,146	11.5	346,204
Operating income	$ 70,784	-20.3	$ 88,814	-5.7	$ 94,231

Year ended December 31, 2007 vs. Year ended December 31, 2006

Revenues

Shoppers revenues decreased $44.5 million, or 9.4%, in 2007 compared to 2006. The decrease in revenues was the result of decreased sales in established markets, the discontinuation of commercial printing operations in our Tampa facility, and circulation reductions. Our Shoppers business continues to be impacted by the difficult

economic environments primarily attributable to the condition of the real estate and associated financing markets in California and Florida. The impact became more pronounced throughout 2007, and affected virtually all revenue categories. The 600,000 circulation reduction at the end of June 2007 discussed above represented approximately $3.0 million of revenue in the first half of 2007. At December 31, 2007, our Shoppers circulation reached approximately 13 million in California and Florida each week. We will continue to evaluate all of our circulation performance. Despite this recent circulation reduction, we continue to believe that future expansions may provide increased revenue opportunities in the long term.

In 2007, the economic environment faced by our Shoppers business was the most difficult we have seen in well over a decade. We do not believe the Shoppers revenue environment will improve in any meaningful fashion in 2008 given the current cyclical issues impacting the California and Florida markets. In fact, this revenue environment may deteriorate from 2007 levels.

Operating Expenses
Operating expenses decreased $26.5 million, or 6.9%, in 2007 compared to 2006. This decrease was partially offset by approximately $1.8 million of costs recognized in 2007 related to the restructuring and circulation shut down described above. Total labor costs decreased $7.9 million, or 5.7%, due to lower sales commissions and lower incentive compensation related to the revenue decline. This decline was partially offset by severance costs throughout the Shoppers segment, and labor investments associated with the Shopper digital unit. Total production costs decreased $16.0 million, or 7.8%, due primarily to decreased paper costs resulting from the overall decline in revenues and the discontinuation of commercial printing operations in our Tampa facility, decreased offload printing costs due to decreased print-and-deliver volumes, and decreased postage costs due to a decline in distribution revenues. This decrease was partially offset by costs incurred to terminate several office leases related to the circulation reduction. Total general and administrative costs decreased $3.3 million, or 9.2%, due to lower promotion costs and lower employee expenses including travel, recruiting and training costs. Depreciation and amortization expense increased $0.7 million, or 8.4%, due to increased capital expenditures in recent years to support growth, a change in how we address our publications, and the write-off of assets related to the circulation shut down.

Shoppers' largest cost components are labor, postage and paper. Shoppers' labor costs are partially variable and tend to fluctuate with the number of zones, circulation, volumes and revenues. Standard postage rates increased in January 2006 and again in May 2007. However, we changed the manner in which we address our Shoppers publications from detached cards to individual labels, and as a result our per-piece postage rates remained steady when the May 2007 rates were put into effect. Standard postage rates are expected to increase in the first half of 2008, which will increase Shoppers' production costs. Paper prices declined in the second half of 2007, contributing to lower production costs. Paper prices are expected to remain at these levels for the first six months of 2008, and increase in the second half.

Year ended December 31, 2006 vs. Year ended December 31, 2005
Revenues
Shoppers revenues increased $34.5 million, or 7.8%, in 2006 compared to 2005. The acquisition of The Tampa Flyer in April 2005 contributed a little more than a third of this revenue growth. The remaining revenue increases primarily were the result of improved sales in established markets, year-over-year geographic expansions and household growth in California and Florida, and new products. Total Shoppers circulation increased by 870,000 during 2006, including 555,000 in California and 315,000 in Florida. During the year the Harte-Hanks Shoppers *PennySaverUSA.com* publication in Southern California increased circulation by 357,000. The Harte-Hanks Shoppers *PennySaver.com* publication in Northern California increased geographic circulation by 198,000. The Harte-Hanks Shoppers publication *TheFlyer.com,* located in South Florida, increased circulation by 17,000. The Harte-Hanks Shoppers publication *TheFlyer.com*, located in the Tampa, Florida area increased circulation by 298,000. At December 31, 2006, Shoppers circulation reached over 13.4 million in California and Florida each week.

From a product-line perspective, Shoppers had growth from both run-of-press (ROP, or in-book) advertising, including core sales and employment, real estate and automotive advertising, and from distribution products.

Operating Expenses
Operating expenses increased $39.9 million, or 11.5%, in 2006 compared to 2005 as a result of increased labor costs, production and distribution costs, depreciation and amortization expense, stock-based compensation and the acquisition of The Tampa Flyer in April 2005. Total labor costs increased $14.7 million, or 12.1%. Excluding the Tampa acquisition, labor costs increased $9.3 million, or 8.2%. $1.8 million of this increase relates to stock-based compensation recorded in 2006 as a result of our adoption of SFAS 123R. The remaining increase in labor costs relates to higher payroll costs to support increased revenues, higher circulation volumes and expansions and higher healthcare costs. The increase in labor costs was partially offset by lower incentive compensation. Total production costs increased $24.1 million, or 13.3%. Excluding the Tampa acquisition, production costs increased $17.1 million, or 10.1%, including increased postage costs, increased offload printing expense due to increased print-and-deliver volumes and higher printing rates, and higher paper costs due to increased newsprint and job paper rates and circulation growth. Excluding the Tampa acquisition, postage expense was up $10.3 million, or 11.2%, due to the postal rate increase in January 2006 and circulation growth. Total general and administrative costs were down slightly, 0.1%. Excluding the Tampa acquisition, general and administrative costs decreased $1.2 million, or 3.4%, primarily due to lower insurance expense and lower bad debt expense, partially offset by increased facilities costs and promotion expense. Total depreciation expense was up $0.8 million, or 12.2%, with a little less than a third of the increase attributable to the Tampa acquisition. Intangible amortization related to the Tampa acquisition was $1.2 million during 2006 compared to $0.8 million during 2005.

General Corporate Expense
Year ended December 31, 2007 vs. Year ended December 31, 2006
General corporate expense increased $2.4 million, or 19.9%, during 2007 compared to 2006. The increase was primarily due to $2.5 million of compensation costs recognized during the third quarter of 2007 associated with the announced retirement of our former President and Chief Executive Officer, Mr. Richard Hochhauser.

Year ended December 31, 2006 vs. Year ended December 31, 2005
General corporate expense decreased $0.1 million, or 0.8%, during 2006 compared to 2005. The decrease in general corporate expense was primarily due to decreased labor, as a result of lower incentive compensation, and decreased insurance expense. Partially offsetting this decrease was $1.5 million of additional stock-based compensation recorded in 2006 as a result of our adoption of SFAS 123R.

Interest Expense
Interest expense increased $6.7 million, or 105.1%, in 2007 compared to 2006, and $4.4 million, or 223.6%, in 2006 compared to 2005. These increases were due to higher outstanding debt levels, primarily due to the repurchases of our common stock, and higher interest rates than in the previous years. Our debt at December 31, 2007 and 2006 is described in Note C of the "Notes to Consolidated Financial Statements," included herein.

Interest Income
Interest income increased $0.3 million, or 133%, in 2007 compared to 2006 due to normal variances in cash levels and higher interest rates on investments. Interest income was essentially unchanged in 2006 compared to 2005 as a result of the combination of normal variances in cash levels and an increase in rates on investments.

Other Income and Expense
Other net expense for 2007 and 2006 primarily consists of balance-based bank charges and stockholders' expenses.

Income Taxes

Year ended December 31, 2007 vs. Year ended December 31, 2006

Income taxes decreased $9.0 million in 2007 compared to 2006 due to lower pretax income levels. The effective income tax rate for 2007 was 38.7% compared to 37.6% in 2006. The increase in the effective tax rate from 2006 to 2007 was principally due to higher production activities tax deductions in 2006, a favorable resolution of a state tax matter in 2006 and the ability to use a one time favorable permanent timing item in 2006. The effective income tax rate calculated is higher than the federal statutory rate of 35% due to the addition of state taxes.

Year ended December 31, 2006 vs. Year ended December 31, 2005

Income taxes decreased $4.6 million in 2006 compared to 2005 due to lower pretax income levels. The effective tax rate for 2006 was 37.6% compared to 38.6% in 2005. Tax expense in 2006 was positively impacted by a favorable resolution to a state tax matter and production activities tax deductions, resulting in the lower effective tax rate compared to 2005. The effective income tax rate calculated is higher than the federal statutory rate of 35% due to the addition of state taxes.

Acquisitions

We made several acquisitions in 2006 and 2005. We did not make any acquisitions in 2007.

Subsequent to year end, in January 2008, we acquired Mason Zimbler Limited, a full-service integrated digital marketing agency specializing in the technology sector. With offices in Bristol, UK and Reading, UK, Mason Zimbler provides technology companies with a full range of integrated digital marketing services, including direct marketing, advertising and branding, incorporating Web site development, e-mail lead generation, viral, channel incentive programs, media planning and buying, research and other services. We have not yet completed the purchase accounting for this transaction. This acquisition is not expected to have a material impact on our results of operations for 2008.

In September 2006, we acquired Aberdeen, a provider of technology market research, intelligence, and demand generation services located in Boston, Massachusetts. Aberdeen offers market information and services through research channels, and prepares reports based on primary research and benchmarking data from more than 25,000 companies. We believe this acquisition has provided synergy opportunities with our CI Technology Database, which now tracks technology infrastructure, business profiles and technology purchase plans at 680,000 locations in North America, South America and Europe – expanding their base globally for research. The results of Aberdeen's reports on current marketplace experiences and trends are used to generate qualified leads by its clients, and we believe this intelligence assists our clients in their own marketing efforts. Goodwill of $32.3 million, intangible assets not subject to amortization of $5.0 million, and intangible assets subject to amortization of $4.3 million have been recognized in this transaction and assigned to the Direct Marketing segment.

In July 2006, we acquired Global Address, a provider of global postal address data quality software and services incorporating standards for more than 230 nations and territories worldwide. Global Address, located in Bristol, UK, and with additional operations in Mountain View, CA, focuses on international address data, and has provided key components of Harte-Hanks Global Data Management, one of our data services offerings. We continue to integrate elements of Global Address into our existing international offerings, among them Global Data Management and our Trillium Software data quality solutions, while continuing to support stand-alone Global Address products and services in the marketplace. The total amount of goodwill recognized in this transaction was $8.1 million and was assigned to the Direct Marketing segment. No intangible assets were recognized in this transaction.

In June 2006, we acquired StepDot Software GmbH of Germany and integrated it into our Trillium Software operations. Based in Böblingen, Germany, StepDot was a value-added reseller specializing in data quality and integration solutions for Harte-Hanks since 2002. The acquisition provided us with a more strategic presence in

Central Europe and Germany. The total amount of goodwill recognized in this transaction was $0.4 million and was assigned to the Direct Marketing segment. No intangible assets were recognized in this transaction.

In April 2006, we acquired certain assets of PrintSmart, Inc., a full-service print-on-demand provider located in East Bridgewater, Massachusetts, in an effort to expand and enhance our digital printing capabilities. No goodwill was recognized in this transaction. Intangible assets recognized in this transaction which are subject to amortization, relating to a service contract, totaled approximately $1.0 million and were assigned to the Direct Marketing segment.

In April 2005, we acquired substantially all of the assets of Flyer Printing Company, Inc. related to *The Flyer* publication, located in Tampa, Florida. *TheFlyer.com*, our current name for this publication, is a weekly shopper publication delivered by mail with circulation at the time of the acquisition of 955,000 in the Tampa, Florida metropolitan area. The total amount of goodwill recognized in this transaction was $41.6 million. Intangible assets recognized in this transaction that are subject to amortization, relating to client relationships and non-compete agreements, totaled $8.3 million. Intangible assets recognized in this transaction that are not subject to amortization, relating to trademarks and trade names, totaled $7.6 million. All goodwill and intangibles recognized as part of this acquisition were assigned to the Shoppers segment.

In February 2005, we acquired long-standing Australian partner Communiqué Direct pursuant to a purchase option we acquired in June 2003. Founded in 1992, Communiqué Direct, located in a north suburb of Sydney, Australia, was a privately held firm that provided a range of marketing and information services for the business-to-business sector across the Asia-Pacific region. Since 1998, Harte-Hanks and Communiqué Direct had worked with each other on many Pacific Rim marketing applications, focusing on our high-tech clients.

The total cost of acquisitions in 2006 and 2005 was $53.9 million and $63.3 million, respectively, and all were paid in cash. We did not make any acquisition-related payments in 2007. The operating results of these acquisitions have been included in the accompanying Consolidated Financial Statements from the date of the acquisitions.

Liquidity and Capital Resources

Sources and Uses of Cash

As of December 31, 2007, cash and cash equivalents were $22.8 million, decreasing $15.4 million from cash and cash equivalents at December 31, 2006. This net decrease was a result of net cash provided by operating activities of $143.2 million, offset by net cash used in investing activities of $28.1 million and net cash used in financing activities of $130.8 million.

Operating Activities

Net cash provided by operating activities in 2007 was $143.2 million, compared to $146.4 million in 2006. The $3.2 million year-over-year decrease was attributable to lower net income, partially offset by changes within working capital assets and liabilities.

In 2007, our principal working capital changes, which directly affected net cash provided by operating activities, were as follows:

- An increase in accounts receivable, primarily attributable to timing. Days sales outstanding of approximately 60 days at December 31, 2007 compared to 56 days at December 31, 2006;
- A decrease in inventory due to sales of paper inventory related to the print operation that was sold in October 2006;
- A decrease in prepaid expenses and other current assets due to timing of payments;
- An increase in accounts payable due to a reclassification of a net overdraft cash position and higher

health insurance reserves due to a change in provider and manner and timing of payments;

- A decrease in accrued payroll and related expenses due to a lower bonus accrual at December 31, 2007 than at December 31, 2006;
- An increase in customer deposits and unearned revenue due to timing of receipts; and
- An increase in income taxes payable due to the timing of quarterly estimated federal and state taxes payments.

Investing Activities
Net cash used in investing activities was $28.1 million in 2007, compared to $86.8 million in 2006. The difference is the result of less acquisition-related expenditures and capital spending in 2007 than in 2006.

Financing Activities
Net cash outflows from financing activities were $130.8 million in 2007 compared to net cash outflows of $46.2 million in 2006. The difference is attributable primarily to $88.9 million less net borrowing in 2007 than in 2006.

Credit Facilities
On August 12, 2005, we entered into a five-year $125 million revolving credit facility (Revolving Credit Facility) with JPMorgan Chase Bank, N.A., as Administrative Agent. The Revolving Credit Facility allows us to obtain revolving credit loans. For each borrowing under the Revolving Credit Facility, we can generally choose to have the interest rate for that borrowing calculated based on either JPMorgan Chase Bank's publicly announced New York prime rate or on a Eurodollar (as defined in the Revolving Credit Agreement) rate plus a spread. The spread is determined based on our total debt-to-EBITDA (as defined in the Revolving Credit Agreement) ratio then in effect, and ranges from .315% to .60% per annum. There is a facility fee that we are also required to pay under the Revolving Credit Facility that is based on a rate applied to the total commitment amount under the Revolving Credit Facility, regardless of how much of that commitment we have actually drawn upon. The facility fee rate ranges from .085% to .15% per annum, depending on our total debt-to-EBITDA ratio then in effect.

On September 6, 2006, we entered into a five-year term loan facility (Term Loan Facility) with Wells Fargo Bank, N.A., as Administrative Agent. The Term Loan Facility originally provided for a commitment of up to $200 million. On December 31, 2007, we began making the scheduled quarterly principal payments as follows:

Quarterly Installments	Percentage of Drawn Amounts
1 – 8	2.50% each
9 – 12	3.75% each
13 – 15	5.00% each
Maturity Date	Remaining Principal Balance

As we have capacity under our Revolving Credit Facility and the intent to use the Revolving Credit Facility to fund the required quarterly principal payments under the Term Loan Facility through 2008, we have classified our entire debt balance at December 31, 2007 as long-term.

The Term Loan Facility matures on September 6, 2011. For each borrowing under the Term Loan Facility, we can generally choose to have the interest rate for that borrowing calculated based on either (i) a Eurodollar (as defined in the Term Loan Agreement) rate, plus a spread which is determined based on our total debt-to-EBITDA ratio (as defined in the Term Loan Agreement) then in effect, and ranges from .315% to .60% per annum, or (ii) the higher of Wells Fargo Bank's prime rate in effect on such date or the Federal Funds rate in effect on such date plus .50%. There is a facility fee that we are also required to pay under the Term Loan Facility that is based on a facility fee rate applied to the outstanding principal balance owed under the Term Loan Facility. The facility fee rate ranges from .085% to .15% per annum, depending on our total debt-to-

EBITDA ratio then in effect. We may elect to prepay the Term Loan Facility at any time without incurring any prepayment penalties. Once an amount has been prepaid, it may not be reborrowed.

Subsequent to year end, on January 18, 2008, we entered into a six-month $50 million revolving credit facility (Bridge Loan Facility) with Wells Fargo Bank, N.A., as Administrative Agent. The Bridge Loan Facility matures on July 18, 2008 and allows us to obtain revolving credit loans up to that date. We intend to utilize the availability under the Bridge Loan Facility primarily to repurchase shares of our common stock and for other general corporate purposes. For each borrowing under the Bridge Loan Facility, we can generally choose to have the interest rate for that borrowing calculated based on either (i) a Eurodollar (as defined in the Bridge Loan Agreement) rate, plus a spread which is determined based on our total debt-to-EBITDA ratio (as defined in the Bridge Loan Agreement) then in effect, and ranges from .40% to .75% per annum, or (ii) the higher of Wells Fargo Bank's prime rate in effect on such date or the Federal Funds rate in effect on such date plus .50%. There is a facility fee that we are also required to pay under the Bridge Loan Facility that is based on a rate applied to the total commitment amount under the Bridge Loan Facility. Prior to termination of the commitment under the Bridge Loan Facility, the facility rate is applied to the total commitment amount under the Bridge Loan Facility, regardless of how much of that commitment we have actually drawn upon. Commencing upon termination of the commitment under the Bridge Loan Facility, the facility rate is applied to the outstanding principal balance owed under the Bridge Loan Facility. The facility fee rate ranges from .10% to .25% per annum, depending on our total debt-to-EBITDA ratio then in effect.

Under the credit facilities we are required to maintain an interest coverage ratio of not less than 2.75 to 1 and a total debt-to-EBITDA ratio of not more than 3.0 to 1. The credit facilities also contain covenants restricting our and our subsidiaries' ability to grant liens and enter into certain transactions and limit the total amount of indebtedness of our subsidiaries to $20 million.

The credit facilities each also include customary covenants regarding reporting obligations, delivery of notices regarding certain events, maintaining our corporate existence, payment of obligations, maintenance of our properties and insurance thereon at customary levels with financially sound and reputable insurance companies, maintaining books and records and compliance with applicable laws. The credit facilities each also provide for customary events of default including nonpayment of principal or interest, breach of representations and warranties, violations of covenants, failure to pay certain other indebtedness, bankruptcy and material judgments and liabilities, certain violations of environmental laws or ERISA or the occurrence of a change of control prevent of default under existing agreements. As of December 31, 2007, we were in compliance with all of the covenants of our credit facilities.

In September 2007, we entered into a two-year interest rate swap with a notional amount of $150 million and a fixed rate of 4.655% in order to limit a portion of our interest rate exposure by converting a portion of our variable-rate debt to fixed-rate debt.

Contractual Obligations

Contractual obligations at December 31, 2007 are as follows:

In thousands,	Total	2008	2009	2010	2011	2012	Thereafter
Debt	$ 259,125	$ 19,500	$ 21,938	$ 100,687	$ 117,000	$ –	$ –
Interest on fixed-rate long-term debt	12,394	7,099	5,295				
Operating leases	90,768	23,972	21,406	16,455	9,586	7,044	12,305
Deferred compensation liability	5,267	702	702	702	702	702	1,757
Unfunded pension plan benefit payments	20,502	577	671	1,075	1,112	1,231	15,836
Other long-term obligations	9,400	4,511	3,613	1,276	–	–	–
Total contractual cash obligations	$ 397,456	$ 56,361	$ 53,625	$ 120,195	$ 128,400	$ 8,977	$ 29,898

At December 31, 2007, we had letters of credit in the amount of $24.9 million. No amounts were drawn against these letters of credit at December 31, 2007. These letters of credit renew annually and exist to support

insurance programs relating to workers' compensation, automobile and general liability, and leases. We had no other off-balance sheet arrangements at December 31, 2007.

Dividends
We paid a quarterly dividend of 7.0 cents per common share and 6.0 cents per common share in each of the quarters in the years ended December 31, 2007 and 2006, respectively. In January 2008, we announced an increase in the regular quarterly dividend from 7.0 cents per share to 7.5 cents per share, payable March 14, 2008 to holders of record on February 29, 2008.

Share Repurchase
During 2007, we repurchased 8.4 million shares of our common stock for $183.9 million under our stock repurchase program. As of December 31, 2007, we have repurchased 59.0 million shares since the beginning of our January 1997 stock repurchase program. In May 2007, our Board of Directors authorized an additional 6 million shares under our stock repurchase program, increasing the total authorization to 61.9 million shares. Under this program, we had authorization to repurchase approximately 2.9 million additional shares at December 31, 2007. In January 2008, our Board authorized an additional 12.5 million shares under our stock repurchase program, bringing the total repurchase authorization to 74.4 million shares.

During 2007, we received 0.1 million shares of our common stock, with an estimated market value of $1.9 million, in connection with stock option exercises. Since January 1997, we have received 1.6 million shares in connection with stock option exercises.

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

The amount of cash on hand and borrowings available under our credit facilities are influenced by a number of factors, including fluctuations in our operating results, revenue growth, accounts receivable collections, capital expenditures, tax payments, share repurchases, acquisitions and dividends.

Based on our current operational plans, we believe that our credit facilities, together with cash provided by operating activities, will be sufficient to fund operations and anticipated capital expenditures, payments of principal and interest on our borrowings, and dividends on our common stock for at least the next twelve months. As of December 31, 2007, we had $56.0 million of unused borrowing capacity under our Revolving Credit Facility. As of December 31, 2007, we did not have any unused borrowing capacity under our Term Loan Facility. As of February 15, 2008, we had $50 million of unused borrowing capacity under our Bridge Facility that we entered into in January 2008, which matures on July 18, 2008.

Subject to market conditions, we anticipate entering into an approximately $100 million, longer-term credit facility prior to the maturity date of the Bridge Loan Facility, at which time we intend to repay any amounts then owed under the Bridge Loan Facility. We intend to utilize the availability under this anticipated longer-term credit facility primarily to continue to repurchase shares of our common stock and for other general corporate purposes.

Critical Accounting Policies
Critical accounting policies are defined as those that, in our judgment, are most important to the portrayal of our company's financial condition and results of operations and which require complex or subjective judgments or

estimates. The areas that we believe involve the most significant management estimates and assumptions are detailed below. Actual results could differ materially from those estimates under different assumptions and conditions. Historically, actual results have not differed significantly from our estimates.

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

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

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

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

Revenue from database design and development, market research, agency services, analytical services, and creative are typically billed based on time and materials or at a fixed price. If billed at a fixed price, revenue is recognized on a proportional performance basis as the services specified in the arrangement are performed. Proportional performance is based on the ratio of direct costs incurred to total estimated costs where the costs incurred, primarily labor hours and outsourced services, represent a reasonable surrogate for output measures or contract performance. Progress on a contract is matched against project costs and costs to complete on a periodic basis. Provision for estimated contract losses, if any, is made in the period such losses are determined. Management estimates and judgments are used in connection with determining the revenue recognized in these instances. Should actual costs differ significantly from the original estimated costs, the timing of revenues and overall profitability of the contract could be impacted. Contracts accounted for under the proportional performance method constituted less than 7.5% of total Direct Marketing revenue and less than 4.5% of our total revenue for the years ended December 31, 2007, 2006 and 2005.

Revenue from technology database subscriptions is based on a fixed price and is recognized ratably over the term of the subscription. Revenue from database and website hosting services is recognized ratably over the contractual hosting period, and pricing is typically based on a fixed price per month or price per contract.

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

Revenue related to E-Care (including online technical support and inbound email management), inbound and outbound telemarketing, and sales lead management is also typically based on a fixed price per transaction or service provided. Revenue from these services is recognized as the service or activity is performed.

Revenue from software 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 "Modification of SOP 97-2, Software Revenue Recognition." 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. For software sales with multiple elements (for example, software licenses with undelivered post-contract customer support or "PCS"), we allocate revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered

elements. This means we defer revenue from the software sale equal to the fair value of the undelivered elements. The fair value of PCS is based upon separate sales of renewals to other clients. The fair value of services, such as training and consulting, is based upon separate sales of these services to other clients.

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

We apply the provisions of Emerging Issues Task Force Issue No. 00-03 "Application of AICPA Statement of Position 97-2 to Arrangements that Include the Right to Use Software Stored on Another Entity's Hardware" to our hosted software service transactions.

For certain non-software arrangements, we enter into contracts that include delivery of a combination of two or more of our service offerings. Typically, such multiple element arrangements incorporate the design and development of data management tools or systems and an ongoing obligation to manage, host or otherwise run solutions for our customer. Such arrangements are divided into separate units of accounting, provided that the delivered item has stand-alone value and there is objective and reliable evidence of the fair value of the undelivered items. The total arrangement fee is allocated to the undelivered elements based on their fair values and to the initial delivered elements using the residual method. Revenue from these services is recognized separately, and in accordance with our revenue recognition policy, for each element.

As described above, sometimes our customer arrangements have multiple deliverables, including service elements. Generally, our multiple-element arrangements fall within the scope of specific accounting standards that provide guidance regarding the separation of elements in multiple-deliverable arrangements and the allocation of consideration among those elements (e.g., AICPA SOP 97-2 "Software Revenue Recognition"). If not, we apply the provisions of Emerging Issues Task Force Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). The provisions of EITF 00-21 require us to unbundle multiple element arrangements into separate units of accounting when the delivered element(s) has stand-alone value and fair value of the undelivered element(s) exist(s). When we are able to unbundle the arrangement into separate units of accounting, we apply one of the accounting policies described above to each unit. If we are unable to unbundle the arrangement into separate units of accounting, we apply one of the accounting policies described above to the entire arrangement. This might impact the timing of revenue recognition, but would not change the total revenue recognized from the arrangement.

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

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

Allowance for Doubtful Accounts

We maintain our allowance for doubtful accounts at a balance adequate to reduce accounts receivable to the amount of cash expected to be realized upon collection. The methodology used to determine the minimum allowance balance is based on our prior collection experience and is generally related to the accounts receivable balance in various aging categories. The balance is also influenced by specific clients' financial strength and circumstance. Accounts that are determined to be uncollectible are written off in the period in which they are determined to be uncollectible. Periodic changes to the allowance balance are recorded as increases or decreases to bad debt expense, which is included in the "Advertising, selling, general and administrative" line of our

Consolidated Statements of Operations. We recorded bad debt expense of $3.5 million, $2.5 million and $4.2 million for the years ended December 31, 2007, 2006 and 2005, respectively. While we believe our reserve estimate to be appropriate, we may find it necessary to adjust the allowance for doubtful accounts if future bad debt expense exceeds the estimated reserve. Given the significance of accounts receivable to the consolidated financial statements, the determination of net realizable values is considered to be a critical accounting estimate.

Reserve for Healthcare, Workers' Compensation, Automobile and General Liability
Our deductible for individual healthcare claims is $0.2 million. Our deductible for workers' compensation is $0.5 million. We have a $0.3 million deductible for automobile and general liability claims. Our insurance administrator provides us with estimated loss reserves, based upon its experience dealing with similar types of claims, as well as amounts paid to date against these claims. Management makes various subjective judgments about a number of factors in determining our reserve for healthcare, workers' compensation, automobile and general liability insurance, and the related expense. If ultimate losses were 10% higher than our estimate at December 31, 2007, net income would be impacted by approximately $0.9 million, net of taxes. The amount that earnings would be impacted is dependent on the claim year and our deductible levels for that plan year. Periodic changes to the reserve for workers' compensation, automobile and general liability are recorded as increases or decreases to insurance expense, which is included in the "Advertising, selling, general and administrative" line of our Consolidated Statement of Operations. Periodic changes to the reserve for healthcare are recorded as increases or decreases to employee benefits expense, which is included in the "Payroll" line of our Consolidated Statement of Operations.

Goodwill
Goodwill is recorded to the extent that the purchase price exceeds the fair value of the assets acquired in accordance with SFAS No. 141, *Business Combinations* (SFAS 141). Pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill and other intangibles with indefinite useful lives are periodically tested for impairment.

We assess the impairment of our goodwill in accordance with SFAS 142, by determining the fair value of each of our reporting units and comparing the fair value to the carrying value for each reporting unit. We have identified our reporting units as Direct Marketing and Shoppers. Fair value is determined using projected discounted future cash flows and cash flow multiple models, based on historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions. If a reporting unit's carrying amount exceeds its fair value, we must calculate the implied fair value of the reporting unit's goodwill by allocating the reporting unit's fair value to all of its assets and liabilities (recognized and unrecognized) in a manner similar to a purchase price allocation, and then compare this implied fair value to its carrying amount. To the extent that the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recorded.

Both the Direct Marketing and Shoppers segments were tested for impairment using November 30 as our valuation date. We have not recorded an impairment loss in any of the three years ended December 31, 2007. Significant estimates utilized in our discounted cash flow model include weighted-average cost of capital and the long-term rate of growth for each of our reporting segments. These estimates require management's judgment. Any significant changes in key assumptions about our businesses and their prospects, or changes in market conditions, could have an impact on this annual analysis.

At December 31, 2007 and 2006, our goodwill balance was $543.6 million and $545.3 million, respectively. Based upon our analysis, the estimated fair values of our reporting units as of December 31, 2007 were well in excess of the reporting units' carrying values.

Stock-based Compensation
Beginning January 1, 2006, we account for stock-based compensation in accordance with SFAS 123R. Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period. Prior to January 1, 2006, we accounted for share-based awards under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25) and related interpretations. Accordingly, prior to January 1, 2006, no compensation expense was recognized for share-based awards granted where the exercise price was equal to the market price of the underlying stock on the date of grant. Determining the fair value of share-based awards requires judgment, including in some cases estimating expected term, volatility and dividend yield. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from some of these estimates, stock-based compensation expense and our results of operations could be materially impacted. For the years ended December 31, 2007, 2006 and 2005, we recorded total stock-based compensation expense of $7.1 million, $7.4 million and $0.2 million, respectively.

New Accounting Pronouncements
As discussed in Note A of the Notes to Consolidated Financial Statements, certain new financial accounting pronouncements have been issued which either have already been reflected in the accompanying consolidated financial statements, or will become effective for our financial statements at various dates in the future. Our adoption of SFAS 141R, *Business Combinations*, in 2009 will affect the way we account for acquisitions, including acquisition-related costs, contractual contingencies and contingent consideration, and may also impact the amount of information we disclose about acquisitions.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We are exposed to market risk for changes in interest rates related to our credit facilities. Our earnings are affected by changes in short-term interest rates as a result of our credit facilities, which bear interest at variable rates based on Eurodollar rates (effective rate of 5.24% at December 31, 2007). The five-year $125 million Revolving Credit Facility has a maturity date of August 12, 2010. At December 31, 2007, our debt balance related to the Revolving Credit Facility was $69.0 million. The five-year $200 million Term Loan Facility has a maturity date of September 6, 2011. At December 31, 2007, our debt balance related to the Term Loan Facility was $190.1 million. In September 2007, we entered into a two-year interest rate swap with a notional amount of $150 million and a fixed rate of 4.655% in order to limit a portion of our interest rate exposure by converting a portion of our variable-rate debt to fixed-rate debt.

We are also subject to interest rate risk on our swap if interest rates decrease. To manage this risk, we may refinance all or a portion of this swap at then-existing market interest rates.

Assuming the actual level of borrowing throughout 2007, and assuming a one percentage point change in the year's average interest rates, it is estimated that our 2007 net income would have changed by approximately $1.1 million. Due to our interest rate swap, overall debt level at December 31, 2007, anticipated cash flows from operations, and the various financial alternatives available to management should there be an adverse change in interest rates, we do not believe that we currently have significant exposure to market risks associated with changing interest rates.

Our earnings are also affected by fluctuations in foreign exchange rates as a result of our operations in foreign countries, a portion of which are conducted in foreign currencies. We monitor these risks throughout the normal course of business. Due to the current level of operations conducted in foreign currencies, we do not believe that the impact of fluctuations in foreign exchange rates is significant to our overall earnings.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, of our internal control over financial reporting to determine whether any changes occurred during the fourth quarter of 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there were no changes in our internal control over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We may make changes in our internal control processes from time to time in the future. It should also be noted that, because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and controls may become inadequate because of changes in conditions or in the degree of compliance with the policies or procedures.

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

ITEM 9B. OTHER INFORMATION

None.

PART III

Some of the information required by Items 10 through 14 of this Part III is incorporated by reference from our definitive proxy statement to be filed for our 2008 annual meeting of stockholders (2008 Proxy Statement), as indicated below. Our 2008 Proxy Statement will be filed with the SEC not later than 120 days after December 31, 2007. Because the 2008 Proxy Statement has not yet been finalized and filed, there may be certain minor discrepancies between the currently anticipated section headings specified below and the final section headings contained in the 2008 Proxy Statement.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers
The information required by this item regarding our directors and executive officers will be set forth in our 2008 Proxy Statement under the caption "Directors and Executive Officers", which information is incorporated herein by reference.

Section 16(a) Compliance
The information to appear in our 2008 Proxy Statement under the caption "General Information - Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

Code of Ethics and Other Governance Information
The information required by this item regarding the Supplemental Code of Ethics for our Senior Financial Officers (Code of Ethics), audit committee financial experts, audit committee members and procedures for stockholder recommendations of nominees to our Board of Directors will be set forth in our 2008 Proxy Statement under the caption "Corporate Governance," which information is incorporated herein by reference.

Our Code of Ethics may be found on our website at *www.harte-hanks.com* by clicking on the link "About Us" and then the link "Corporate Governance," and a copy of our Code of Ethics is also available in print, without charge, upon written request to Harte-Hanks, Inc., Attn: Corporate Secretary, 200 Concord Plaza Drive, San Antonio, Texas 78216. In accordance with the rules of the NYSE and the SEC, we currently intend to disclose any future amendments to our Code of Ethics, or waivers from our Code of Ethics for our Chief Executive Officer, Chief Financial Officer and Controller, by posting such information on our website (*www.harte-hanks.com*) within the time period required by applicable SEC and NYSE rules.

Management Certifications

In accordance with the Sarbanes-Oxley Act of 2002 and SEC rules thereunder, our Chief Executive Officer and Chief Financial Officer have signed certifications under Sarbanes-Oxley Section 302, which have been filed as exhibits to this Form 10-K. In addition, our Chief Executive Officer submitted his most recent annual certification to the NYSE under Section 303A.12(a) of the NYSE listing standards on May 21, 2007.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item regarding the compensation of our "named executive officers" and directors and other required information will be set forth in our 2008 Proxy Statement under the captions "Executive Compensation," and "Director Compensation," which information is incorporated herein by reference. In accordance with the rules of the SEC, information to be contained in the 2008 Proxy Statement under the caption "Compensation Committee Report" is not deemed to be "filed" with the SEC or subject to the liabilities of the 1934 Act.

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

Beneficial Ownership Tables
The information required by this item regarding security ownership of certain beneficial owners, management and directors will be set forth in our 2008 Proxy Statement under the caption "Security Ownership of Management and Principal Stockholders," which information is incorporated herein by reference.

Equity Compensation Plan Information
The information required by this item regarding securities authorized for issuance under equity compensation plans will be set forth in our 2008 Proxy Statement under the caption "Executive Compensation - Equity Compensation Plan Information at Year-End 2007," which information is incorporated herein by reference.

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

Transactions with Related Persons
The information required by this item regarding transactions with related persons, including our policies and procedures for the review, approval or ratification of related person transactions that are required to be disclosed under the SEC's rules and regulations, will be set forth in our 2008 Proxy Statement under the caption "Corporate Governance - Certain Relationships and Related Transactions," which information is incorporated herein by reference.

Director Independence
The information required by this item regarding director independence will be set forth in our 2008 Proxy Statement under the caption "Corporate Governance—Independence of Directors," which information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item regarding the audit committee's pre-approval policies and procedures and the disclosures of fees billed by our principal independent auditor will be set forth in our 2008 Proxy Statement under the caption "Audit Committee and Independent Registered Public Accounting Firm," which information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

15(a)(1) Financial Statements:

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

15(a)(2) Financial Statement Schedules

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

15(a)(3) Exhibits

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

SIGNATURES

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

HARTE-HANKS, INC.

By: /s/ Dean Blythe
Dean Blythe
President and Chief Executive Officer

Date: February 29, 2008

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

/s/ Dean Blythe
Dean Blythe
President and Chief Executive Officer
Date: February 29, 2008

/s/ Douglas Shepard
Douglas Shepard
Executive Vice President and
Chief Financial Officer
Date: February 29, 2008

/s/ Jessica Huff
Jessica Huff
Vice President, Finance and
Chief Accounting Officer
Date: February 29, 2008

/s/ William F. Farley
William F. Farley, Director
Date: February 29, 2008

/s/ Larry Franklin
Larry Franklin, Chairman
Date: February 29, 2008

/s/ William K. Gayden
William K. Gayden, Director
Date: February 29, 2008

/s/ Houston H. Harte
Houston H. Harte, Vice Chairman
Date: February 29, 2008

/s/ Christopher M. Harte
Christopher M. Harte, Director
Date: February 29, 2008

/s/ David L. Copeland
David L. Copeland, Director
Date: February 29, 2008

/s/ Judy C. Odom
Judy C. Odom, Director
Date: February 29, 2008

/s/ Richard Hochhauser
Richard Hochhauser, Director
Date: February 29, 2008

Harte-Hanks, Inc. and Subsidiaries
Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2007 and 2006

Consolidated Statements of Operations for each of the years in the three-year period ended December 31, 2007

Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2007

Consolidated Statements of Stockholders' Equity and Comprehensive Income for each of the years in the three-year period ended December 31, 2007

Notes to Consolidated Financial Statements

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Harte-Hanks, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note A to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123, as revised, *Share-Based Payment,* effective January 1, 2006, and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2008, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

San Antonio, Texas
February 29, 2008

Management's Report on Internal Control Over Financial Reporting

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

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

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

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

We conducted an evaluation of the effectiveness of our internal controls over financial reporting based on criteria established in *Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on our evaluation, we concluded that internal control over financial reporting was effective as of December 31, 2007.

KPMG LLP, an independent registered public accounting firm, has issued a report on the effectiveness of the Company's internal control over financial reporting, which is included on page F-4 of this Form 10-K.

February 29, 2008

/s/ Dean Blythe
Dean Blythe
President and Chief Executive Officer

/s/ Douglas Shepard
Douglas Shepard
Executive Vice President and
Chief Financial Officer

/s/ Jessica Huff
Jessica Huff
Vice President, Finance and
Chief Accounting Officer

Report of Independent Registered Public Accounting Firm

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

We have audited Harte-Hanks, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Harte-Hanks, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Harte-Hanks, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 29, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Antonio, Texas
February 29, 2008

Harte-Hanks, Inc. and Subsidiaries Consolidated Balance Sheets

In thousands, except per share and share amounts	December 31, 2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 22,847	$ 38,270
Accounts receivable *(less allowance for doubtful accounts of $3,556 in 2007 and $3,928 in 2006)*	199,222	189,444
Inventory	6,007	7,956
Prepaid expenses	15,473	18,207
Deferred income tax asset	12,628	17,319
Other current assets	9,503	8,779
Total current assets	265,680	279,975
Property, plant and equipment		
Land	3,376	3,317
Buildings and improvements	39,783	39,427
Software	98,089	91,903
Equipment and furniture	196,687	197,616
	337,935	332,263
Less accumulated depreciation and amortization	(229,190)	(220,314)
	108,745	111,949
Software development and equipment installations in progress	3,609	4,642
Net property, plant and equipment	112,354	116,591
Intangible and other assets		
Goodwill, net	543,583	545,347
Other intangible assets *(less accumulated amortization of $10,235 in 2007 and $6,826 in 2006)*	20,939	23,448
Other assets	9,370	3,924
Total intangible and other assets	573,892	572,719
Total assets	$ 951,926	$ 969,285
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 67,167	$ 58,853
Accrued payroll and related expenses	26,443	27,966
Customer deposits and unearned revenue	61,988	61,275
Income taxes payable	12,482	10,608
Other current liabilities	12,028	12,534
Total current liabilities	180,108	171,236
Long-term debt	259,125	205,000
Other long-term liabilities *(including deferred income taxes of $66,060 in 2007 and $65,080 in 2006)*	104,181	99,573
Total liabilities	543,414	475,809
Stockholders' equity		
Common stock, $1 par value, authorized: 250,000,000 shares Issued 2007: 117,692,688; Issued 2006: 116,497,473 shares	117,693	116,497
Additional paid-in capital	323,182	295,555
Retained earnings	1,145,736	1,073,395
Less treasury stock, 2007: 49,756,675; 2006: 41,282,969 shares at cost	(1,160,205)	(974,625)
Accumulated other comprehensive loss	(17,894)	(17,346)
Total stockholders' equity	408,512	493,476
Total liabilities and stockholders' equity	$ 951,926	$ 969,285

See Accompanying Notes to Consolidated Financial Statements.

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

In thousands, except per share amounts	Year Ended December 31, 2007	2006	2005
Revenues	$1,162,886	$1,184,688	$1,134,993
Operating expenses			
Payroll	468,675	440,496	418,056
Production and distribution	402,793	433,592	407,512
Advertising, selling, general and administrative	89,787	90,516	88,067
Depreciation	33,195	31,566	29,918
Intangible amortization	3,509	2,466	1,427
Total operating expenses	997,959	998,636	944,980
Operating income	164,927	186,052	190,013
Other expenses (income)			
Interest expense	12,992	6,333	1,957
Interest income	(539)	(231)	(197)
Other, net	1,337	702	1,774
	13,790	6,804	3,534
Income before income taxes	151,137	179,248	186,479
Income tax expense	58,497	67,456	72,021
Net income	$ 92,640	$ 111,792	$ 114,458
Basic earnings per common share	$ 1.28	$ 1.41	$ 1.37
Weighted-average common shares outstanding	72,524	79,049	83,734
Diluted earnings per common share	$ 1.26	$ 1.39	$ 1.34
Weighted-average common and common equivalent shares outstanding	73,703	80,646	85,406

See Accompanying Notes to Consolidated Financial Statements.

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

In thousands	Year Ended December 31, 2007	2006	2005
Cash Flows from Operating Activities			
Net income	$ 92,640	$ 111,792	$ 114,458
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	33,195	31,566	29,918
Intangible amortization	3,509	2,466	1,427
Stock-based compensation	7,067	7,434	161
Excess tax benefits from stock-based compensation	(2,455)	(2,950)	–
Deferred income taxes	8,631	6,716	6,555
Other, net	556	1,577	459
Changes in operating assets and liabilities, net of effects from acquisitions:			
Increase in accounts receivable, net	(10,251)	(460)	(14,250)
Decrease (increase) in inventory	1,949	23	(1,083)
Decrease (increase) in prepaid expenses and other current assets	2,010	(4,180)	829
Increase in accounts payable	8,314	1,916	6,171
Increase (decrease) in other accrued expenses and other liabilities	2,221	(4,750)	(4,938)
Other, net	(4,171)	(4,779)	5,707
Net cash provided by operating activities	143,215	146,371	145,414
Cash Flows from Investing Activities			
Acquisitions	–	(53,931)	(63,274)
Purchases of property, plant and equipment	(28,217)	(33,708)	(28,215)
Proceeds from the sale of property, plant and equipment	120	877	165
Net cash used in investing activities	(28,097)	(86,762)	(91,324)
Cash Flows from Financing Activities			
Long-term borrowings	123,000	342,000	112,000
Payments on debt	(68,875)	(199,000)	(60,000)
Issuance of common stock	16,566	12,546	10,397
Excess tax benefits from stock-based compensation	2,455	2,950	–
Issuance of treasury stock	181	190	183
Purchase of treasury stock	(183,867)	(186,003)	(114,213)
Dividends paid	(20,299)	(18,902)	(16,703)
Net cash used in financing activities	(130,839)	(46,219)	(68,336)
Effect of exchange rate changes on cash and cash equivalents	298	319	–
Net (decrease) increase in cash and cash equivalents	(15,423)	13,709	(14,246)
Cash and cash equivalents at beginning of year	38,270	24,561	38,807
Cash and cash equivalents at end of year	$ 22,847	$ 38,270	$ 24,561

See Accompanying Notes to Consolidated Financial Statements.

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

In thousands, except per share amounts	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
Balance at December 31, 2004	$ 114,505	$ 253,515	$ 882,750	$ (663,779)	$ (15,192)	$ 571,799
Common stock issued — employee benefit plans	174	3,874	–	–	–	4,048
Exercise of stock options for cash and by surrender of shares	774	7,311	–	(4,654)	–	3,431
Tax benefit of options exercised	–	5,133	–	–	–	5,133
Dividends paid ($0.20 per share)	–	–	(16,703)	–	–	(16,703)
Treasury stock issued	–	32	–	151	–	183
Treasury stock repurchased	–	–	–	(114,213)	–	(114,213)
Comprehensive income, net of tax:						
Net income	–	–	114,458	–	–	114,458
Adjustment for minimum pension liability (net of tax benefit of $3,567)	–	–	–	–	(5,450)	(5,450)
Foreign currency translation adjustment	–	–	–	–	(1,340)	(1,340)
Total comprehensive income						107,668
Balance at December 31, 2005	$ 115,453	$ 269,865	$ 980,505	$ (782,495)	$ (21,982)	$ 561,346
Common stock issued — employee benefit plans	201	4,277	–	–	–	4,478
Exercise of stock options for cash and by surrender of shares	843	9,679	–	(6,293)	–	4,229
Tax benefit of options exercised	–	3,769	–	–	–	3,769
Stock-based compensation	–	7,941	–	–	–	7,941
Dividends paid ($0.24 per share)	–	–	(18,902)	–	–	(18,902)
Treasury stock issued	–	24	–	166	–	190
Treasury stock repurchased	–	–	–	(186,003)	–	(186,003)
Comprehensive income, net of tax:						
Net income	–	–	111,792	–	–	111,792
Adjustment for minimum pension liability (net of tax expense of $16,297)	–	–	–	–	24,909	24,909
Foreign currency translation adjustment	–	–	–	–	1,290	1,290
Total comprehensive income						137,991
Adjustment to initially adopt SFAS 158 (net of tax benefit of $14,108)	–	–	–	–	(21,563)	(21,563)
Balance at December 31, 2006	$ 116,497	$ 295,555	$1,073,395	$ (974,625)	$ (17,346)	$ 493,476
Common stock issued — employee benefit plans	213	3,851	–	–	–	4,064
Exercise of stock options for cash and by surrender of shares	983	13,163	–	(1,892)	–	12,254
Tax benefit of options exercised	–	3,554	–	–	–	3,554
Stock-based compensation	–	7,057	–	–	–	7,057
Dividends paid ($0.28 per share)	–	–	(20,299)	–	–	(20,299)
Treasury stock issued	–	2	–	179	–	181
Treasury stock repurchased	–	–	–	(183,867)	–	(183,867)
Comprehensive income, net of tax:						
Net income	–	–	92,640	–	–	92,640
Adjustment to pension liability (net of tax benefit of $595)	–	–	–	–	(484)	(484)
Change in value of derivative instrument accounted for as a cash flow hedge (net of tax benefit of $1,038)	–	–	–	–	(1,557)	(1,557)
Foreign currency translation adjustment	–	–	–	–	1,493	1,493
Total comprehensive income	–	–	–	–	–	92,092
Balance at December 31, 2007	$ 117,693	$ 323,182	$1,145,736	$ (1,160,205)	$ (17,894)	$ 408,512

See Accompanying Notes to Consolidated Financial Statements.

Note A – Significant Accounting Policies

Consolidation
The accompanying consolidated financial statements present the financial position and the results of operations and cash flows of Harte-Hanks, Inc. and subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified for comparative purposes.

As used in this report, the terms "Harte-Hanks," "we," "us," or "our" may refer to Harte-Hanks, one or more of its consolidated subsidiaries, or all of them taken as a whole.

Use of Estimates
The preparation of financial statements in conformity with U.S. 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.

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

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

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

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

Revenue from database design and development, market research, agency services, analytical services, and creative are typically billed based on time and materials or at a fixed price. If billed at a fixed price, revenue is recognized on a proportional performance basis as the services specified in the arrangement are performed. Proportional performance is based on the ratio of direct costs incurred to total estimated costs where the costs incurred, primarily labor hours and outsourced services, represent a reasonable surrogate for output measures or contract performance. Progress on a contract is matched against project costs and costs to complete on a periodic basis. Provision for estimated contract losses, if any, is made in the period such losses are determined. Management estimates and judgments are used in connection with determining revenue recognized in these instances. Should actual costs differ significantly from the original estimated costs, the timing of revenues and overall profitability of the contract could be impacted. Contracts accounted for under the proportional performance method constituted less than 7.5% of total Direct Marketing revenue and less than 4.5% of our total revenue for the years ended December 31, 2007, 2006 and 2005.

Revenue from technology database subscriptions is based on a fixed price and is recognized ratably over the term of the subscription. Revenue from database and website hosting services is recognized ratably over the contractual hosting period, and pricing is typically based on a fixed price per month or price per contract.

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

Revenue related to E-Care (including online technical support and inbound email management), inbound and outbound telemarketing, and sales lead management is also typically based on a fixed price per transaction or service provided. Revenue from these services is recognized as the service or activity is performed.

Revenue from software 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 *Modification of SOP 97-2, Software Revenue Recognition*. 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. For software sales with multiple elements (for example, software licenses with undelivered post-contract customer support or "PCS"), we allocate revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements. This means we defer revenue from the software sale equal to the fair value of the undelivered elements. The fair value of PCS is based upon separate sales of renewals to other clients. The fair value of services, such as training and consulting, is based upon separate sales of these services to other clients.

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

We apply the provisions of Emerging Issues Task Force Issue No. 00-03 *Application of AICPA Statement of Position 97-2 to Arrangements that Include the Right to Use Software Stored on Another Entity's Hardware* to our hosted software service transactions.

For certain non-software arrangements, we enter into contracts that include delivery of a combination of two or more of our service offerings. Typically, such multiple element arrangements incorporate the design and development of data management tools or systems and an ongoing obligation to manage, host or otherwise run solutions for our customer. Such arrangements are divided into separate units of accounting, provided that the delivered item has stand-alone value and there is objective and reliable evidence of the fair value of the undelivered items. The total arrangement fee is allocated to the undelivered elements based on their fair values and to the initial delivered elements using the residual method. Revenue from these services is recognized separately, and in accordance with our revenue recognition policy, for each element.

As described above, sometimes our customer arrangements have multiple deliverables, including service elements. Generally, our multiple-element arrangements fall within the scope of specific accounting standards that provide guidance regarding the separation of elements in multiple-deliverable arrangements and the allocation of consideration among those elements (e.g., AICPA SOP 97-2 *Software Revenue Recognition*). If not, we apply the provisions of Emerging Issues Task Force Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"). The provisions of EITF 00-21 require us to unbundle multiple element arrangements into separate units of accounting when the delivered element(s) has stand-alone value and fair value of the undelivered element(s) exist(s). When we are able to unbundle the arrangement into separate units of accounting, we apply one of the accounting policies described above to each unit. If we are unable to unbundle the arrangement into separate units of accounting, we apply one of the accounting policies described above to the entire arrangement. This might impact the timing of revenue recognition, but would not change the total revenue recognized from the arrangement.

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

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

Cash Equivalents
All highly liquid investments with an original 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. At December 31, 2007, we reclassified $8.4 million from cash equivalents to accounts payable due to net book overdraft cash positions at certain banks. We did no such reclassification at December 31, 2006 as we did not have any net book overdraft cash positions at that date.

Allowance for Doubtful Accounts
We maintain our allowance for doubtful accounts at a balance adequate to reduce accounts receivable to the amount of cash expected to be realized upon collection. The methodology used to determine the minimum allowance balance is based on our prior collection experience and is generally related to the accounts receivable balance in various aging categories. The balance is also influenced by specific clients' financial strength and circumstance. Accounts that are determined to be uncollectible are written off in the period in which they are determined to be uncollectible. Periodic changes to the allowance balance are recorded as increases or decreases to bad debt expense, which is included in the "Advertising, selling, general and administrative" line of our Consolidated Statements of Operations. The changes in the allowance for doubtful accounts consisted of the following:

	Year Ended December 31,		
In thousands	2007	2006	2005
Balance at beginning of year	$ 3,928	$ 3,832	$ 1,892
Additions charged to expense	3,483	2,491	4,190
Amounts charged against the allowance, net of recoveries	3,855	2,395	2,250
Balance at end of year	$ 3,556	$ 3,928	$ 3,832

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 is computed using 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

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), long-lived assets such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We recorded an impairment loss of $0.5 million in the third quarter of 2006 in anticipation of the sale of a Direct Marketing print operation that occurred in October 2006. We did not record an impairment on long-lived assets in 2007 or 2005.

Goodwill and Other Intangibles

Goodwill and other intangibles are recorded in accordance with SFAS No. 141, *Business Combinations* (SFAS 141). Goodwill is recorded to the extent that the purchase price exceeds the fair value of the assets acquired. Other intangibles with indefinite useful lives are recorded at fair value at the date of the acquisition. Other intangibles with definite useful lives are recorded at cost. Pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill and other intangibles with indefinite useful lives were tested for impairment using November 30 as our valuation date. Fair value has been determined using discounted cash flow methodology. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 144. We have determined that no impairment of goodwill or other intangibles existed in any of the three years ended December 31, 2007.

Income Taxes

Income taxes are calculated using the asset and liability method required by SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). Deferred income taxes are recognized for the tax consequences resulting from timing differences by applying enacted statutory tax rates applicable to future years. These timing differences are associated with differences between the financial and the tax basis of existing assets and liabilities. Under SFAS 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.

Stock-Based Compensation

On January 1, 2006, we adopted SFAS No. 123, as revised, *Share-Based Payment* (SFAS 123R) under the modified-prospective transition method. SFAS 123R requires that all share-based awards be recognized as operating expense, based on their fair values on the date of grant, over the requisite service period, in the consolidated statement of operations. Prior to January 1, 2006, we accounted for share-based awards under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25) and related interpretations. Accordingly, prior to January 1, 2006, no compensation expense was recognized for share-based awards granted where the exercise price was equal to the market price of the underlying stock on the date of grant.

Reserve for Healthcare, Workers' Compensation, Automobile and General Liability

Our deductible for individual healthcare claims is $0.2 million. Our deductible for workers' compensation is $0.5 million. We have a $0.3 million deductible for automobile and general liability claims. Our insurance administrator provides us with estimated loss reserves, based upon its experience dealing with similar types of claims, as well as amounts paid to date against these claims. We apply actuarial factors to both insurance estimated loss reserves and to paid claims and then determine reserve levels, taking into account these calculations. Periodic changes to the reserve for workers' compensation, automobile and general liability are recorded as increases or decreases to insurance expense, which is included in the "Advertising, selling, general and administrative" line of our Consolidated Statement of Operations. Periodic changes to the reserve for healthcare are recorded as increases or decreases to employee benefits expense, which is included in the "Payroll" line of our Consolidated Statement of Operations.

Accounting for Derivative Instruments and Hedging Activities

We use derivative instruments to manage the risk of changes in prevailing interest rates adversely affecting future cash flows associated with our credit facilities. The derivative instrument used to manage such risk is the interest rate swap. We account for interest rate swaps in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). We have designated our interest rate swap as a cash

flow hedge. As such, we report the fair value of the swap as an asset or liability on our balance sheet, any ineffectiveness as interest expense, and effective changes to the fair value of the swap in other comprehensive loss. Periodic gains and losses on the swap are used to offset related results on the hedged item in the statement of operations. Cash flows from derivatives accounted for as cash flow hedges are reported as cash flow from operating activities, in the same category as the cash flows from the items being hedged.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. An enterprise would be required to recognize in its financial statements the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement only if that position meets the more-likely-than-not recognition threshold. We adopted the provisions of FIN 48 on January 1, 2007. We did not recognize a change to our unrecognized tax benefits as a result of this adoption.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for us beginning January 1, 2008 and is not expected to have a significant impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), an amendment of SFAS 87, SFAS 88, SFAS 106, and SFAS 132R and other related accounting literature. SFAS 158 requires an employer to recognize the overfunded or underfunded status of defined benefit postretirement plans as an asset or a liability in its statement of financial position. The funded status is measured as the difference between plan assets at fair value and the benefit obligation (the projected benefit obligation for pension plans or the accumulated benefit obligation for other postretirement benefit plans). An employer is also required to measure the funded status of a plan as of the date of its year-end balance sheet with changes in the funded status recognized through comprehensive income. SFAS 158 also requires certain disclosures regarding the effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of gains or losses, prior service costs or credits, and the transition asset or obligation. As of result of the adoption of SFAS 158 as of December 31, 2006, we recorded a noncurrent liability, representing the combined underfunded status of our pension plans, of $18.2 million dollars on our consolidated balance sheet.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for us beginning January 1, 2008 and is not expected to have a significant impact on our consolidated financial statements.

In June 2007, the FASB's Emerging Issues Task Force (EITF) issued EITF 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. EITF 06-11 requires the tax benefit received on dividends associated with share-based awards that are charged to retained earnings to be recorded in additional paid-in capital and included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. Our adoption of EITF 06-11 on January 1, 2008 is not expected to have a material impact on our consolidated financial statements.

In December 2007, the FASB revised SFAS No. 141, *Business Combinations* (SFAS 141). The revised SFAS No. 141 (SFAS 141R) establishes principles and requirements for how an acquiring company:

- Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree;
- Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and
- Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

SFAS 141R requires an acquiring company to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at fair value as of the acquisition date. Under SFAS 141, acquisition-related costs were included in the total costs of the acquisition that were allocated to the assets acquired and the liabilities assumed. Under SFAS 141R, these acquisition-related costs will be expensed in the period in which they occur. SFAS 141R requires an acquiring company to recognize contractual contingencies as assets or liabilities at fair value as of the acquisition date. SFAS 141 permitted deferred recognition of preacquisition contingencies until certain recognition criteria were met. SFAS 141R also requires an acquiring company to recognize contingent consideration at fair value as of the acquisition date. Under SFAS 141, contingent consideration usually was not recognized until the contingency was resolved, in which case an adjustment was made to goodwill. SFAS 141R is effective for us beginning January 1, 2009. Our adoption of SFAS 141R will affect the way we account for acquisitions, including acquisition-related costs, contractual contingencies and contingent consideration. Our adoption of SFAS 141R may also impact the amount of information we disclose about acquisitions.

Note B – Acquisitions
We made several acquisitions in 2006 and 2005. We did not make any acquisitions in 2007.

Subsequent to year end, in January 2008, we acquired Mason Zimbler Limited, a full-service integrated digital marketing agency specializing in the technology sector. With offices in Bristol, UK and Reading, UK, Mason Zimbler provides technology companies with a full range of integrated digital marketing services, including direct marketing, advertising and branding, incorporating Web site development, e-mail lead generation, viral, channel incentive programs, media planning and buying, research and other services. We have not yet completed the purchase accounting for this transaction. This acquisition is not expected to have a material impact on our results of operations for 2008.

In September 2006, we acquired Aberdeen Group*,* Inc. (Aberdeen), a provider of technology market research, intelligence, and demand generation services located in Boston, Massachusetts. Aberdeen offers market information and services through research channels, and prepares reports based on primary research and benchmarking data from more than 25,000 companies. We believe this acquisition has provided synergy opportunities with our CI Technology Database, which now tracks technology infrastructure, business profiles and technology purchase plans at 680,000 locations in North America, South America and Europe – expanding their base globally for research. The results of Aberdeen's reports on current marketplace experiences and trends are used to generate qualified leads by its clients, and we believe this intelligence assists our clients in their own marketing efforts. Goodwill of $32.3 million, intangible assets not subject to amortization of $5.0 million, and intangible assets subject to amortization of $4.3 million have been recognized in this transaction and assigned to the Direct Marketing segment.

In July 2006, we acquired Global Address, a provider of global postal address data quality software and services incorporating standards for more than 230 nations and territories worldwide. Global Address, located in Bristol, UK, and with additional operations in Mountain View, CA, focuses on international address data, and has provided key components of Harte-Hanks Global Data Management, one of our data services offerings. We continue to integrate elements of Global Address into our existing international offerings, among them Global Data Management and our Trillium Software data quality solutions, while continuing to support stand-alone Global Address products and services in the marketplace. The total amount of goodwill recognized in this transaction was $8.1 million and was assigned to the Direct Marketing segment. No intangible assets were recognized in this transaction.

In June 2006, we acquired StepDot Software GmbH of Germany and integrated it into our Trillium Software operations. Based in Böblingen, Germany, StepDot was a value-added reseller specializing in data quality and integration solutions for Harte-Hanks since 2002. The acquisition provided us with a more strategic presence in Central Europe and Germany. The total amount of goodwill recognized in this transaction was $0.4 million and was assigned to the Direct Marketing segment. No intangible assets were recognized in this transaction.

In April 2006, we acquired certain assets of PrintSmart, Inc., a full-service print-on-demand provider located in East Bridgewater, Massachusetts, in an effort to expand and enhance our digital printing capabilities. No goodwill was recognized in this transaction. Intangible assets recognized in this transaction which are subject to amortization, relating to a service contract, totaled approximately $1.0 million and were assigned to the Direct Marketing segment.

In April 2005, we acquired substantially all of the assets of Flyer Printing Company, Inc. related to *The Flyer publication*, located in Tampa, Florida. *TheFlyer.com*, our current name for this publication, is a weekly shopper publication delivered by mail with circulation at the time of the acquisition of 955,000 in the Tampa, Florida metropolitan area. The total amount of goodwill recognized in this transaction was $41.6 million. Intangible assets recognized in this transaction that are subject to amortization, relating to client relationships and non-compete agreements, totaled $8.3 million. Intangible assets recognized in this transaction that are not subject to amortization, relating to trademarks and trade names, totaled $7.6 million. All goodwill and intangibles recognized as part of this acquisition were assigned to the Shoppers segment.

In February 2005, we acquired long-standing Australian partner Communiqué Direct pursuant to a purchase option we acquired in June 2003. Founded in 1992, Communiqué Direct, located in a north suburb of Sydney, Australia, was a privately held firm that provided a range of marketing and information services for the business-to-business sector across the Asia-Pacific region. Since 1998, Harte-Hanks and Communiqué Direct had worked with each other on many Pacific Rim marketing applications, focusing on our high-tech clients.

The total cost of acquisitions in 2006 and 2005 was $53.9 million and $63.3 million, respectively, and all were paid in cash. We did not make any acquisition-related payments in 2007. The operating results of these acquisitions have been included in the accompanying Consolidated Financial Statements from the date of the acquisitions. We have not disclosed proforma amounts including the operating results of prior years' acquisitions as they are not considered material.

Note C – Long-Term Debt

Our long-term debt obligations at year-end were as follows:

In thousands	December 31, 2007	December 31, 2006
Revolving Credit Facility, various interest rates based on Eurodollar (effective rate of 5.44% at December 31, 2007), due August 12, 2010	$ 69,000	$ 10,000
Term Loan Facility, various interest rates based on Eurodollar (effective rate of 5.16% at December 31, 2007), due September 6, 2011	190,125	195,000
	$ 259,125	$ 205,000

Credit Facilities

On August 12, 2005, we entered into a five-year $125 million revolving credit facility (Revolving Credit Facility) with JPMorgan Chase Bank, N.A., as Administrative Agent. The Revolving Credit Facility allows us to obtain revolving credit loans. For each borrowing under the Revolving Credit Facility, we can generally choose to have the interest rate for that borrowing calculated based on either JPMorgan Chase Bank's publicly announced New York prime rate or on a Eurodollar (as defined in the Revolving Credit Agreement) rate plus a

spread. The spread is determined based on our total debt-to-EBITDA (as defined in the Revolving Credit Agreement) ratio then in effect, and ranges from .315% to .60% per annum. There is a facility fee that we are also required to pay under the Revolving Credit Facility that is based on a rate applied to the total commitment amount under the Revolving Credit Facility, regardless of how much of that commitment we have actually drawn upon. The facility fee rate ranges from .085% to .15% per annum, depending on our total debt-to-EBITDA ratio then in effect.

On September 6, 2006, we entered into a five-year term loan facility (Term Loan Facility) with Wells Fargo Bank, N.A., as Administrative Agent. The Term Loan Facility originally provided for a commitment of up to $200 million. On December 31, 2007 we began making the scheduled quarterly principal payments as follows:

Quarterly Installments	Percentage of Drawn Amounts
1 – 8	2.50% each
9 – 12	3.75% each
13 – 15	5.00% each
Maturity Date	Remaining Principal Balance

The Term Loan Facility matures on September 6, 2011. For each borrowing under the Term Loan Facility, we can generally choose to have the interest rate for that borrowing calculated based on either (i) a Eurodollar (as defined in the Term Loan Agreement) rate, plus a spread which is determined based on our total debt-to-EBITDA ratio (as defined in the Term Loan Agreement) then in effect, and ranges from .315% to .60% per annum, or (ii) the higher of Wells Fargo Bank's prime rate in effect on such date or the Federal Funds rate in effect on such date plus .50%. There is a facility fee that we are also required to pay under the Term Loan Facility that is based on a facility fee rate applied to the outstanding principal balance owed under the Term Loan Facility. The facility fee rate ranges from .085% to .15% per annum, depending on our total debt-to-EBITDA ratio then in effect. We may elect to prepay the Term Loan Facility at any time without incurring any prepayment penalties. Once an amount has been prepaid, it may not be reborrowed.

Subsequent to year end, on January 18, 2008, we entered into a six-month $50 million revolving credit facility (Bridge Loan Facility) with Wells Fargo Bank, N.A., as Administrative Agent. The Bridge Loan Facility matures on July 18, 2008 and allows us to obtain revolving credit loans up to that date. We intend to utilize the availability under the Bridge Loan Facility primarily to repurchase shares of our common stock and for other general corporate purposes. For each borrowing under the Bridge Loan Facility, we can generally choose to have the interest rate for that borrowing calculated based on either (i) a Eurodollar (as defined in the Bridge Loan Agreement) rate, plus a spread which is determined based on our total debt-to-EBITDA ratio (as defined in the Bridge Loan Agreement) then in effect, and ranges from .40% to .75% per annum, or (ii) the higher of Wells Fargo Bank's prime rate in effect on such date or the Federal Funds rate in effect on such date plus .50%. There is a facility fee that we are also required to pay under the Bridge Loan Facility that is based on a rate applied to the total commitment amount under the Bridge Loan Facility. Prior to termination of the commitment under the Bridge Loan Facility, the facility rate is applied to the total commitment amount under the Bridge Loan Facility, regardless of how much of that commitment we have actually drawn upon. Commencing upon termination of the commitment under the Bridge Loan Facility, the facility rate is applied to the outstanding principal balance owed under the Bridge Loan Facility. The facility fee rate ranges from .10% to .25% per annum, depending on our total debt-to-EBITDA ratio then in effect.

Subject to market conditions, we anticipate entering into an approximately $100 million, longer-term credit facility prior to the maturity date of the Bridge Loan Facility, at which time we intend to repay any amounts then owed under the Bridge Loan Facility. We intend to utilize the availability under this anticipated longer-term credit facility primarily to continue to repurchase shares of our common stock and for other general corporate purposes.

The future minimum principal payments related to our debt at December 31, 2007 are as follows:

In thousands	
2008	$ 19,500
2009	21,938
2010	100,687
2011	117,000
	$ 259,125

As we have capacity under our Revolving Credit Facility and the intent to fund the required quarterly principal payments under the Term Loan Facility through 2008, we have classified our entire debt balance at December 31, 2007 as long-term.

Under the credit facilities, we are required to maintain an interest coverage ratio of not less than 2.75 to 1 and a total debt-to-EBITDA ratio of not more than 3.0 to 1. The credit facilities also contain covenants restricting our and our subsidiaries' ability to grant liens and enter into certain transactions and limit the total amount of indebtedness of our subsidiaries to $20 million.

The credit facilities each also include customary covenants regarding reporting obligations, delivery of notices regarding certain events, maintaining our corporate existence, payment of obligations, maintenance of our properties and insurance thereon at customary levels with financially sound and reputable insurance companies, maintaining books and records and compliance with applicable laws. The credit facilities each also provide for customary events of default including nonpayment of principal or interest, breach of representations and warranties, violations of covenants, failure to pay certain other indebtedness, bankruptcy and material judgments and liabilities, certain violations of environmental laws or ERISA or the occurrence of a change of control prevent of default under existing agreements. As of December 31, 2007, we were in compliance with all of the covenants of our credit facilities.

Cash payments for interest were $13.2 million, $6.1 million, and $1.7 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Note D – Interest Rate Risk

We use derivative instruments to manage the risk of changes in prevailing interest rates adversely affecting future cash flows associated with our credit facilities. The derivative instrument used to manage such risk is the interest rate swap. We account for interest rate swaps in accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*.

As with any financial instrument, derivative instruments have inherent risks, primarily market and credit risk. Market risk associated with changes in interest rates is managed as part of our overall market risk monitoring process by establishing and monitoring limits as to the degree of risk that may be undertaken. Credit risk occurs when a counterparty to a derivative contract in which we have an unrealized gain fails to perform according to the terms of the agreement. We minimize our credit risk by entering into transactions with counterparties that maintain high credit ratings.

We have designated our interest rate swap as a cash flow hedge. For a derivative instrument designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative instrument is recorded in other comprehensive income (loss) and is recognized as a component of interest expense in the statement of operations when the hedged item affects results of operations. We discontinue hedge accounting prospectively if it is determined that (i) an interest rate swap is not highly effective in offsetting changes in the cash flows of a hedged item, (ii) the derivative expires or is sold, terminated or exercised, or (iii) the derivative is undesignated as a hedge instrument because it is unlikely that a forecasted transaction will occur.

If hedge accounting is discontinued, the derivative instrument will continue to be carried at fair value, with changes in the fair value of the derivative instrument recognized in the current period's results of operations. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the accumulated gains and losses included in accumulated other comprehensive income (loss) will be recognized immediately in results of operations. When hedge accounting is discontinued because the derivative instrument has not been or will not continue to be highly effective as a hedge, the remaining amount in accumulated other comprehensive income (loss) is amortized into earnings over the remaining life of the derivative.

In September 2007, we entered into a two-year interest rate swap agreement with a notional amount of $150.0 million and a fixed rate of 4.655%. The two-year term began on September 28, 2007. This interest rate swap changes the variable-rate cash flow exposure on the $150.0 million notional amount to fixed-rate cash flows by entering into receive-variable, pay-fixed interest rate swap transactions. Under this swap transaction, we receive London Interbank Offered Rate (LIBOR) based variable interest rate payments and make fixed-interest rate payments, thereby creating fixed-rate debt. We designated this hedging relationship as hedging the risk of changes in cash flows (a cash flow hedge) attributable to changes in the LIBOR rate applicable to our Revolving Credit Facility and Term Loan Facility. As such, we report the fair value of the swap as an asset or liability on our balance sheet, any ineffectiveness as interest expense, and effective changes to the fair value of the swap in other comprehensive loss. Periodic gains and losses on the swap are used to offset related results on the hedged item in the statement of operations. At December 31, 2007 this swap is recorded at fair value as a $2.6 million liability. We reclassified into earnings gains of $0.1 million for the year ended December 31, 2007, that were related to the swap and previously reported in other comprehensive loss. We expect losses of $1.2 million to be reclassified into earnings over the next twelve months related to the swap and currently reported in other comprehensive loss. The amount ultimately realized, however, could differ as interest rates change.

On a quarterly basis, we assess the ineffectiveness of the hedging relationship, and any gains or losses related to the ineffectiveness are recorded as interest expense in our statement of operations. We do not expect the ineffectiveness related to our current hedging activity to be material to our financial results in the future. There were no components of the derivative instruments that were excluded from the assessment of hedge effectiveness.

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

We assess interest rate risk by regularly identifying and monitoring changes in interest rate exposure that may adversely impact expected future cash flows and by evaluating hedging opportunities.

Note E – Income Taxes

The components of income tax expense (benefit) are as follows:

In thousands	Year Ended December 31, 2007	2006	2005
Current			
Federal	$ 39,855	$ 49,958	$ 56,593
State and local	8,719	10,349	8,609
Foreign	1,292	433	264
Total current	$ 49,866	$ 60,740	$ 65,466
Deferred			
Federal	$ 8,145	$ 5,487	$ 5,130
State and local	609	891	471
Foreign	(123)	338	954
Total deferred	$ 8,631	$ 6,716	$ 6,555
Total income tax expense	$ 58,497	$ 67,456	$ 72,021

The United States and foreign components of income before income taxes were as follows:

In thousands	Year Ended December 31, 2007	2006	2005
United States	$ 148,291	$ 176,777	$ 183,393
Foreign	2,846	2,471	3,086
Total income before income taxes.	$ 151,137	$ 179,248	$ 186,479

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, 2007		2006		2005	
Computed expected income tax expense	$ 52,898	35 %	$ 62,737	35%	$ 65,269	35%
Net effect of state income taxes	6,063	4 %	7,306	4%	5,960	3%
Production activities deduction	(1,282)	-1 %	(1,940)	-1%	–	0%
Other, net	818	1 %	(647)	0%	792	1%
Income tax expense for the period	$ 58,497	39 %	$ 67,456	38%	$ 72,021	39%

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

In thousands	Year Ended December 31, 2007	2006	2005
Results of operations	$ 58,497	$ 67,456	$ 72,021
Stockholders' equity	(5,187)	(1,580)	(8,700)
Total	$ 53,310	$ 65,876	$ 63,321

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, 2007	December 31, 2006
Deferred tax assets		
Deferred compensation and retirement plan	$ 9,564	$ 10,158
Accrued expenses not deductible until paid	6,520	6,193
Employee stock-based compensation	4,514	2,622
Accounts receivable, net	1,443	1,306
Other, net	252	111
State income tax	627	1,321
Federal net operating loss carryforwards	2,239	2,303
Foreign net operating loss carryforwards	1,564	1,672
State net operating loss carryforwards	1,101	821
Total gross deferred tax assets	27,824	26,507
Less valuation allowance	(1,047)	(1,128)
Net deferred tax assets	26,777	25,379
Deferred tax liabilities		
Property, plant and equipment	(11,825)	(13,762)
Goodwill and other intangibles	(67,997)	(59,377)
Other, net	(387)	–
Total gross deferred tax liabilities	(80,209)	(73,139)
Net deferred tax liabilities	$ (53,432)	$ (47,760)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the expectation of future taxable income and that the deductible temporary differences will offset existing taxable temporary differences, management believes it is more likely than not that we will realize the benefits of these deductible differences, net of the existing valuation allowances, at December 31, 2007 and 2006.

Net deferred taxes are recorded both as a current deferred income tax asset and as other long-term liabilities based upon the classification of the related timing difference. There are approximately $14.2 million and $8.1 million of deferred tax assets related to non-current items that are netted with long-term deferred tax liabilities at December 31, 2007 and 2006, respectively.

Harte-Hanks or one of our subsidiaries files income tax returns in the U.S. federal, U.S. state and foreign jurisdictions. For U.S. state and foreign returns, we are no longer subject to tax examinations for years prior to 2003. For U.S. federal returns, we are no longer subject to tax examinations for the years prior to 2004.

We adopted the provisions of FIN 48 on January 1, 2007. We did not recognize a change to our unrecognized tax benefits as a result of the implementation of FIN 48. A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

Balance at January 1, 2007	$ 12,209
Additions for current year tax positions	640
Additions for prior year tax positions	2,128
Reductions for prior year tax positions	(871)
Lapse of statute	(2,338)
Settlements	–
Balance at December 31, 2007	$ 11,768

At December 31, 2007, unrecognized tax benefits totaled $7.7 million, net of tax, of which $1.3 million represents accruals for interest and penalties that were recorded as additional tax expense in accordance with our accounting policy. If recognized, the entire unrecognized tax benefit amount would impact the effective tax

rate. During the years ended December 31, 2007, 2006, and 2005, we recognized approximately $0.2 million, $0.1 million and $0.3 million in taxes related to interest and penalties. We had approximately $1.3 million and $1.1 million of interest and penalties accrued at December 31, 2007 and 2006, respectively.

We anticipate that it is reasonably possible that we will have a reduction in the liability related to filing positions in the range of $1.2 million to $1.4 million during 2008 as a result of the lapsing statutes.

The adoption of SFAS 123R in January 2006 required the recognition of a deferred tax asset for the future exercise and issuance of stock-based compensation grants. As a result of the adoption of SFAS 123R we recorded $2.6 million in deferred tax assets in 2006.

As of December 31, 2007, we had net operating loss carryforwards that are available to reduce future taxable income and that will begin to expire in 2020.

The valuation allowance for deferred tax assets as of January 1, 2006, was $.7 million. The valuation allowance at December 31, 2007 and 2006 relates to foreign and state net operating loss carryforwards, which are not expected to be realized.

Deferred income taxes have not been provided on the undistributed earnings of our foreign subsidiaries as these earnings have been, and under current plans will continue to be, permanently reinvested in these subsidiaries. If those earnings were not considered permanently reinvested, U.S. federal deferred income taxes would have been recorded. However, it is not practicable to estimate the amount of additional taxes which may be payable upon distributions.

Cash payments for income taxes were $44.1 million, $59.1 million and $64.9 million in 2007, 2006 and 2005, respectively.

Note F – Goodwill and Other Intangibles

Goodwill and other intangibles are recorded in accordance with SFAS 141. Goodwill is recorded to the extent that the purchase price exceeds the fair value of the assets acquired. Pursuant to SFAS 142, goodwill and other intangibles with indefinite useful lives are tested for impairment as described below.

We assess the impairment of goodwill and other intangibles with indefinite lives in accordance with SFAS 142, by determining the fair value of each of our reporting units and comparing the fair value to the carrying value for each reporting unit. We have identified our reporting units as Direct Marketing and Shoppers. Fair value is determined using projected discounted future cash flows and cash flow multiple models, based on historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions. If a reporting unit's carrying amount exceeds its fair value, we must calculate the implied fair value of the reporting unit's goodwill and other intangibles with indefinite lives by allocating the reporting unit's fair value to all of its assets and liabilities (recognized and unrecognized) in a manner similar to a purchase price allocation, and then compare this implied fair value to its carrying amount. To the extent that the carrying amount of goodwill and other intangibles with indefinite lives exceeds its implied fair value, an impairment loss is recorded.

Both the Direct Marketing and Shoppers segments were tested for impairment using the November 30, 2007 balances. Based on the results of our impairment test, we have not recorded an impairment loss related to goodwill or other intangibles with indefinite useful lives in any of the three years ended December 31, 2007.

The changes in the carrying amount of goodwill for the years ended December 31, 2007 and 2006, are as follows:

In thousands	Direct Marketing	Shoppers	Total
Balance at December 31, 2005	$335,263	$167,487	$502,750
Additional purchase consideration	42,597	–	42,597
Balance at December 31, 2006	$377,860	$167,487	$545,347
Purchase accounting adjustments	(1,764)	–	(1,764)
Balance at December 31, 2007	$376,096	$167,487	$543,583

Other intangibles with indefinite useful lives all relate to trademarks and trade names associated with the Tampa Flyer acquisition in April 2005 and the Aberdeen acquisition in September 2006, and were recorded at fair value.

The changes in the carrying amount of other intangibles with indefinite lives for the years ended December 31, 2007 and 2006, are as follows:

In thousands	Direct Marketing	Shoppers	Total
Balance at December 31, 2005	$ –	$ 7,600	$ 7,600
Additional purchase consideration	5,000	–	5,000
Balance at December 31, 2006	$ 5,000	$ 7,600	$ 12,600
Additional purchase consideration	–	–	–
Balance at December 31, 2007	$ 5,000	$ 7,600	$ 12,600

Other intangibles with definite useful lives all relate to contact databases, client relationships and non-compete agreements. Other intangibles with definite useful lives are recorded on the basis of cost in accordance with SFAS 141. Pursuant to SFAS 142, intangible assets with definite useful lives are amortized on a straight-line basis over their respective estimated useful lives, typically a period of 5 to 10 years, and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset my not be recoverable. We have not recorded an impairment loss related to other intangibles with definite useful lives in any of the three years ended December 31, 2007.

The changes in the carrying amount of other intangibles with definite lives for the years ended December 31, 2007 and 2006, are as follows:

In thousands	Direct Marketing	Shoppers	Total
Balance at December 31, 2005	$ 1,547	$ 7,522	$ 9,069
Amortization	(1,303)	(1,163)	(2,466)
Additional purchase consideration	4,245	–	4,245
Balance at December 31, 2006	$ 4,489	$ 6,359	$ 10,848
Amortization	(2,347)	(1,162)	(3,509)
Purchase accounting adjustments	1,000	–	1,000
Balance at December 31, 2007	$ 3,142	$ 5,197	$ 8,339

Amortization expense related to other intangibles with definite useful lives was $3.5 million, $2.5 million and $1.4 million for the years ended December 31, 2007, 2006 and 2005, respectively. Expected amortization expense for the next five years is as follows:

In thousands	
2008	$ 2,950
2009	1,712
2010	934
2011	674
2012	648

Note G – Employee Benefit Plans

Prior to January 1, 1999, we maintained a defined benefit pension plan for which most of our employees were eligible. In conjunction with significant enhancements to the 401(k) plan, we elected to freeze benefits under this defined benefit pension plan as of December 31, 1998.

In 1994, we 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 principal pension plan were it not for limitations imposed by income tax regulation. The benefits under this supplemental pension plan, which is an unfunded plan, will continue to accrue as if the principal pension plan had not been frozen.

On December 31, 2006, we adopted SFAS 158, which requires that the overfunded or underfunded status of defined benefit postretirement plans be recorded as an asset or liability in the balance sheet. The funded status is measured as the difference between the fair value of plan assets and the projected benefit obligation. Periodic changes in the funded status are recognized through comprehensive income. We currently measure the funded status of our defined benefit plans as of December 31, the date of our year-end consolidated balance sheets.

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

	Year Ended December 31,	
In thousands	2007	2006
Change in benefit obligation		
Benefit obligation at beginning of year	$ 126,565	$ 126,567
Service cost	766	762
Interest cost	7,778	7,320
Actuarial loss (gain)	1,943	(2,135)
Benefits paid	(6,003)	(5,949)
Benefit obligation at end of year	$ 131,049	$ 126,565
Change in plan assets		
Fair value of plan assets at beginning of year	$ 108,343	$ 96,612
Actual return on plan assets	7,227	12,248
Contributions	5,445	5,432
Benefits paid	(6,003)	(5,949)
Fair value of plan assets at end of year	$ 115,012	$ 108,343
Funded status at end of year	$ (16,037)	$ (18,222)

The effect of applying SFAS 158 on individual lines in the Consolidated Balance Sheets as of December 31, 2006 was as follows:

In thousands	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Other assets	$ 35,337	$ (31,413)	$ 3,924
Total assets	1,000,698	(31,413)	969,285
Deferred income taxes	(79,188)	14,108	(65,080)
Other long-term liabilities	(30,235)	(4,258)	(34,493)
Total liabilities	(485,659)	9,850	(475,809)
Accumulated other comprehensive loss (pension-related)	336	21,563	21,899
Total stockholders' equity	(515,039)	21,563	(493,476)
Total liabilities and stockholders' equity	$(1,000,698)	$ 31,413	$(969,285)

The following amounts have been recognized in the Consolidated Balance Sheets at December 31:

In thousands	2007	2006
Noncurrent assets	$ 4,537	$ –
Noncurrent liabilities	(20,574)	(18,222)
	$ (16,037)	$ (18,222)

The following amounts have been recognized in accumulated other comprehensive loss at December 31:

In thousands	2007	2006
Net loss	$ 22,172	$ 21,591
Transition obligation	65	124
Prior service cost	146	184
	$ 22,383	$ 21,899

We plan to make a contribution to our frozen pension plan in 2008. That contribution will be at least equal to the minimum required contribution in order to obtain the Pension Benefit Guaranty Corporation full funding limit exemption, but not greater than the maximum amount deductible for tax purposes. At this point we cannot estimate the amount or the timing of that contribution. We are not required to make and do not intend to make any additional contributions to either pension plan in 2008 other than to the extent needed to cover benefit payments related to the unfunded plan.

The following information is presented for pension plans with an accumulated benefit obligation in excess of plan assets:

	December 31,	
In thousands	2007	2006
Projected benefit obligation	$ 131,049	$ 126,565
Accumulated benefit obligation	127,037	122,307
Fair value of plan assets	$ 115,012	$ 108,343

The non-qualified, unfunded pension plan had an accumulated benefit obligation of $16.6 million and $14.4 million at December 31, 2007 and 2006, respectively.

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Loss:

In thousands	Year Ended December 31, 2007	2006	2005
Net Period Benefit Cost (Pre-tax)			
Service cost	$ 766	$ 762	$ 738
Interest cost	7,778	7,320	7,024
Expected return on plan assets	(8,964)	(8,258)	(7,917)
Amortization of prior service cost	61	61	61
Transition obligation	96	96	96
Recognized actuarial loss	2,442	2,513	2,377
Net periodic benefit cost	$ 2,179	$ 2,494	$ 2,379
Amounts Recognized in Other Comprehensive Loss (Pre-tax)			
Net loss	$ 1,296		
Transition obligation	(132)		
Prior service cost	(85)		
Minimum pension liability	–		
Total recognized in other comprehensive loss	$ 1,079		
Total recognized in net periodic benefit cost and other comprehensive loss	$ 3,258		

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year are $2.0 million, $0.1 million and $0.1 million, respectively.

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

	Year Ended December 31, 2007	2006	2005
Weighted-average assumptions used to determine net periodic benefit cost			
Discount rate	6.00%	6.00%	6.00%
Expected return on plan assets	8.25%	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%	4.00%

	December 31, 2007	2006
Weighted-average assumptions used to determine benefit obligations		
Discount rate	6.25%	6.00%
Rate of compensation increase	4.00%	4.00%

The discount rate assumptions are based on current yields of investment-grade corporate long-term bonds. The expected long-term return on plan assets is based on the expected future average annual return for each major asset class within the plan's portfolio (which is principally comprised of equity investments) over a long-term horizon. In determining the expected long-term rate of return on plan assets, we evaluated input from our investment consultants, actuaries, and investment management firms including their review of asset class return expectations, as well as long-term historical asset class returns. Projected returns by such consultants and economists are based on broad equity and bond indices. Additionally, we considered our historical 15-year compounded returns, which have been in excess of the forward-looking return expectations.

The funded pension plan assets as of December 31, 2007 and 2006, by asset category are as follows:

In thousands	2007	%	2006	%
Equity securities	$ 87,432	76%	$ 87,974	81%
Debt securities	27,580	24%	20,369	19%
Total plan assets	$ 115,012	100%	$ 108,343	100%

The expected future pension benefit payments for the next ten years as of December 31, 2007 are as follows:

In thousands	
2008	$ 6,151
2009	6,553
2010	7,224
2011	7,384
2012	7,782
2013 - 2017	45,117
	$ 80,211

The investment policy for the Harte-Hanks, Inc. Pension Plan focuses on the preservation and enhancement of the plan's assets through prudent asset allocation, quarterly monitoring and evaluation of investment results, and periodic meetings with investment managers.

The investment policy's goals and objectives are to meet or exceed the representative indices over a full market cycle (3-5 years). The policy establishes the following investment mix, which is intended to subject the principal to an acceptable level of volatility while still meeting the desired return objectives:

	Target	Acceptable Range	Benchmark Index
Domestic Equities	57.5%	35% - 75%	S&P 500
Large Cap Growth	22.5%	15% - 30%	Russell 1000 Growth
Large Cap Value	22.5%	15% - 30%	Russell 1000 Value
Mid Cap Value	7.5%	5% - 15%	Russell Mid Cap Value
Mid Cap Growth	5.0%	5% - 15%	Russell Mid Cap Growth
Domestic Fixed Income	25.0%	20% - 50%	LB Aggregate
International Equities	17.5%	10% - 25%	MSC1 EAFE

To address the issue of risk, the investment policy places high priority on the preservation of the value of capital (in real terms) over a market cycle. Investments are made in companies with a minimum five-year operating history and sufficient trading volume to facilitate, under most market conditions, prompt sale without severe market effect. Investments are diversified; reasonable concentration in any one issue, issuer, industry or geographic area is allowed if the potential reward is worth the risk.

Investment managers are evaluated by the performance of the representative indices over a full market cycle for each class of assets. The Pension Plan Committee reviews, on a quarterly basis, the investment portfolio of each manager, which includes rates of return, performance comparisons with the most appropriate indices, and comparisons of each manager's performance with a universe of other portfolio managers that employ the same investment style.

We also sponsor a 401(k) retirement plan in which we match a portion of employees' voluntary before-tax contributions. Under this plan both employee and matching contributions vest immediately. Total 401(k) expense recognized in 2007, 2006 and 2005 was $7.2 million, $7.0 million and $6.6 million, respectively.

Note H – Stockholders' Equity

In January 2008, we announced an increase in the regular quarterly dividend from 7.0 cents per share to 7.5 cents per share, payable March 14, 2008 to holders of record on February 29, 2008.

During 2007, we repurchased 8.4 million shares of our common stock for $183.9 million under our stock repurchase program. As of December 31, 2007, we have repurchased 59.0 million shares since the beginning of the stock repurchase program in January 1997. In May 2007, our Board of Directors authorized an additional 6.0 million shares under our stock repurchase program, increasing the total authorization to 61.9 million shares. Under this program, we had authorization to repurchase approximately 2.9 million additional shares at December 31, 2007. In January 2008, our Board authorized an additional 12.5 million shares under our stock repurchase program, bringing the total repurchase authorization to 74.4 million shares.

During 2007, we received 0.1 million shares of our common stock, with an estimated market value of $1.9 million, in connection with stock option exercises. Since January 1997, we have received 1.6 million shares in exchange for proceeds related to stock option exercises.

In 2007, we purchased 0.2 million shares of our common stock from Mr. Houston H. Harte, a member of our Board of Directors. In 2007, we also purchased 0.2 million shares of our common stock from The Shelton Family Foundation (Foundation) and 0.1 million shares of our common stock from The Scottie Ann Shelton Trust (Trust). Mr. Larry D. Franklin, the Chairman of our Board of Directors, and David L. Copeland, a member of our Board of Directors, both served as directors on the Foundation and trustees of the Trust at the time of these purchases and both disclaim beneficial ownership of any shares held by the Foundation or the Trust. In January 2008, Mr. Franklin resigned from the board of the Foundation. Details of these purchases are as follows:

Seller	Purchase Date	Shares	Purchase Price	Closing Price
Houston H. Harte	February 5, 2007	100,000	$26.07	$26.07
Shelton Family Foundation	February 20, 2007	100,000	$27.58	$27.58
Houston H. Harte	March 7, 2007	100,000	$27.73	$27.73
Shelton Family Foundation	December 10, 2007	100,000	$16.93	$16.93
Scottie Ann Shelton Trust	December 10, 2007	100,000	$16.93	$16.93

Note I – Stock-Based Compensation

On January 1, 2006, we adopted SFAS 123R under the modified-prospective transition method. SFAS 123R requires that all share-based awards be recognized as operating expense, based on their fair values on the date of grant, over the requisite service period, in the Consolidated Statement of Operations. Prior to January 1, 2006, we accounted for share-based awards under the recognition and measurement principles of APB No. 25 and related interpretations. Accordingly, prior to January 1, 2006, no compensation expense was recognized for share-based awards granted where the exercise price was equal to the market price of the underlying stock on the date of grant.

Compensation expense for stock-based awards is recognized on a straight-line basis over the vesting period of the entire award in the Payroll line of the Consolidated Statement of Operations. For the years ended December 31, 2007, 2006, and 2005, we recorded total stock-based compensation expense of $7.1 million ($4.3 million, net of tax), $7.4 million ($4.6 million, net of tax) and $0.2 million ($0.1 million, net of tax), respectively.

Had stock-based compensation been determined and recognized based on the fair value at grant date for awards since January 1, 1995, consistent with the provisions of SFAS 123 as originally issued, our 2005 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, 2005
Net income — as reported	$ 114,458
Stock-based employee compensation expense, included in reported net income, net of related tax effects	99
Stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(4,291)
Net income — pro forma	$ 110,266
Basic earnings per share — as reported	$ 1.37
Basic earnings per share – pro forma	$ 1.32
Diluted earnings per share — as reported	$ 1.34
Diluted earnings per share — pro forma	$ 1.29

In May 2005, we adopted the 2005 Omnibus Incentive Plan (2005 Plan), a shareholder approved plan, pursuant to which we may issue to directors, officers and key employees up to 4.6 million equity securities. Under the 2005 Plan we have awarded stock options, nonvested shares and performance stock units. The 2005 Plan replaced the 1991 Stock Option Plan (1991 Plan), a shareholder approved plan, pursuant to which we issued stock options to officers and key employees. No additional options will be granted under the 1991 Plan. As of December 31, 2007, there were 2.7 million shares available for grant under the 2005 Plan.

Stock Options

Under the 2005 Plan, all options have been granted at exercise prices equal to the market price of the common stock on the grant date (2005 Plan market price options). All 2005 Plan market price options become exercisable in 25% increments on the second, third, fourth and fifth anniversaries of their date of grant and expire on the tenth anniversary of their date of grant. As of December 31, 2007, 2005 Plan market price options to purchase 1.6 million shares were outstanding with exercise prices ranging from $16.08 to $28.85 per share.

Under the 1991 Plan, options were granted at exercise prices equal to the market price of the common stock on the grant date (1991 Plan market price options) and at exercise prices below the market price of the common stock (1991 Plan performance options). 1991 Plan market price options granted prior to January 1998 became exercisable after the fifth anniversary of their date of grant and expire on the tenth anniversary of their date of grant. Beginning January 1998, 1991 Plan market price options become exercisable in 25% increments on the second, third, fourth and fifth anniversaries of their date of grant and expire on the tenth anniversary of their date of grant. As of December 31, 2007, 1991 Plan market price options to purchase 5.1 million shares were outstanding with exercise prices ranging from $11.92 to $26.55 per share.

At December 31, 2007, 1991 Plan performance options to purchase 22,000 shares were outstanding, all with exercise prices of $1.33 per share. No 1991 Plan performance options have been granted since January 1999. The 1991 Plan performance options became exercisable in whole or in part after three years, and the extent to which they became exercisable at that time depended upon the extent to which we achieved certain goals

established at the time the options were granted. In December 2005, the remaining unvested 1991 Plan performance options were amended to comply with Section 409A of the Internal Revenue Code of 1986, as amended. Under this option amendment, these unvested 1991 Plan performance options will only be exercisable on the business day following the vesting date of each option.

The following summarizes all stock option activity during 2007, 2006 and 2005:

	Number of Shares	Weighted-Average Option Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Thousands)
Options outstanding at December 31, 2004	7,228,685	$16.01		
Granted	1,220,050	25.88		
Exercised	(773,890)	9.98		$ 13,329
Cancelled	(246,661)	21.82		
Options outstanding at December 31, 2005	7,428,184	$18.07		
Granted	808,875	25.92		
Exercised	(846,652)	12.00		$ 12,754
Cancelled	(238,436)	25.12		
Options outstanding at December 31, 2006	7,151,971	$19.44		
Granted	1,028,125	24.91		
Exercised	(979,545)	14.16		$ 9,009
Cancelled	(416,907)	24.67		
Options outstanding at December 31, 2007	6,783,644	$20.71	5.45	$ 15,422
Exercisable at December 31, 2007	3,952,614	$17.90	3.75	$ 8,811

The aggregate intrinsic value at year end in the table above represents the total pre-tax intrinsic value that would have been received by the option holders if all of the in-the-money options were exercised on December 31, 2007. The pre-tax intrinsic value is the difference between the closing price of our common stock on December 31, 2007 and the exercise price for each in-the-money option. This value fluctuates with the changes in the price of our common stock.

The following table summarizes information about stock options outstanding at December 31, 2007:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 1.33 – 14.50	560,440	1.81	$ 13.26	546,038	$ 13.58
$14.54 – 15.63	618,921	2.88	$ 14.83	618,921	$ 14.83
$15.75 – 17.30	736,999	2.56	$ 16.53	685,499	$ 16.48
$17.45 – 18.22	857,768	4.19	$ 18.13	820,009	$ 18.16
$18.31 – 21.23	623,000	4.77	$ 19.83	599,250	$ 19.86
$22.03 – 22.03	745,717	6.09	$ 22.03	357,347	$ 22.03
$22.78 – 24.42	483,700	8.33	$ 23.76	94,450	$ 23.99
$25.63 – 25.63	868,799	7.07	$ 25.63	213,846	$ 25.63
$25.76 – 25.76	591,175	8.10	$ 25.80	1,250	$ 25.76
$26.31 – 28.85	697,125	8.93	$ 26.30	16,004	$ 27.34
	6,783,644	5.45	$ 20.71	3,952,614	$ 17.90

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted-average assumptions used for grants during 2007, 2006 and 2005:

	Years Ended December 31,		
	2007	2006	2005
Expected term (in years)	6.75	6.75	6.59
Expected stock price volatility	21.43%	23.25%	25.64%
Risk-free interest rate	4.59%	4.45%	4.00%
Expected dividend yield	1.11%	0.89%	0.75%

Expected term is estimated using the simplified method under Staff Accounting Bulletin No. 107, which takes into account vesting and contractual term. The simplified method is being used to calculate expected term instead of historical experience due to changes in the option vesting schedules and the pool of employees receiving option grants. Expected stock price volatility is based on the historical volatility from traded shares of our stock over the expected term. The risk-free interest rate is based on the rate of a zero-coupon U.S. Treasury instrument with a remaining term approximately equal to the expected term. Expected dividend yield is based on historical stock price movement and anticipated future annual dividends over the expected term. Future annual dividends over the expected term are estimated to range between $0.32 and $0.56 per share, with a weighted-average annual dividend of $0.44 per share.

The weighted-average fair value of options granted during 2007, 2006 and 2005 was $7.32, $8.11 and $8.30, respectively. As of December 31, 2007, there was $11.4 million of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted average period of approximately 3.11 years.

Nonvested Shares

All nonvested shares have been granted under the 2005 Plan, and vest 100% on the third anniversary of their date of grant. As of December 31, 2007, 0.2 million nonvested shares were outstanding, none of which had vested.

The following summarizes all nonvested share activity during 2007 and 2006:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested shares outstanding at December 31, 2005	-	$ -
Granted	82,624	25.82
Vested	-	-
Cancelled	(3,201)	25.80
Nonvested shares outstanding at December 31, 2006	79,423	$25.82
Granted	81,584	25.01
Vested	-	-
Cancelled	(7,048)	25.27
Nonvested shares outstanding at December 31, 2007	153,959	$25.41

The fair value of each nonvested share is estimated on the date of grant as the closing market price of our common stock on the date of grant. We did not grant any nonvested shares prior to 2006. As of December 31, 2007, there was $1.6 million of total unrecognized compensation cost related to nonvested shares. This cost is expected to be recognized over a weighted average period of approximately 1.94 years.

Performance Stock Units

All performance stock units have been granted under the 2005 Plan. Performance stock units are a form of share-based awards in which the number of shares ultimately issued is based on our performance against specific performance goals over a three-year period. At the end of the performance period, the number of shares of stock issued will be determined by adjusting upward or downward from the target in a range between 0% and 125%. As of December 31, 2007, 0.1 million performance stock units were outstanding. As of December 31, 2007, no shares of stock associated with the performance stock units have been issued.

The following summarizes all performance stock unit activity during 2007 and 2006:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Performance stock units outstanding at December 31, 2005	-	$ -
Granted	48,175	25.03
Issued	-	-
Cancelled	(3,025)	25.03
Performance stock units outstanding at December 31, 2006	45,150	$25.03
Granted	48,900	25.29
Issued	-	-
Cancelled	(5,600)	25.08
Performance stock units outstanding at December 31, 2007	88,450	$25.17

The fair value of each performance stock unit is estimated on the date of grant as the closing market price of our common stock on the date of grant, minus the present value of dividend payments anticipated to be paid over the vesting period. Annual dividends over the vesting period are estimated to range between $0.28 and $0.36 per share, with a weighted-average annual dividend of $0.32 per share. Periodic compensation expense is based on the current estimate of future performance against specific performance goals over a three-year period and is adjusted up or down based on those estimates. As of December 31, 2007, none of the performance goals associated with outstanding performance stock units are expected to be achieved. As a result, no compensation expense related to performance stock awards has been recorded since June 30, 2007 and we reversed $0.5 million of previously recorded stock-based compensation related to performance stock units in the third quarter of 2007.

Employee Stock Purchase Plan

The 1994 Employee Stock Purchase Plan (ESPP Plan), a shareholder approved plan, provides for a total of 6.0 million shares to be sold to participating employees at 85% of the fair market value at specified quarterly investment dates. During 2007, we issued 0.2 million shares under our employee stock purchase plan at an average price of $19.41 per share. 2.2 million shares were available for issuance at December 31, 2007.

Note J – Fair Value of Financial Instruments

Because of their maturities and/or variable interest rates, certain financial instruments have fair values approximating their carrying values. These instruments include revolving credit agreements, accounts receivable and trade payables. The carrying value of the interest rate swap is adjusted to fair value at the end of each fiscal quarter.

Note K – Commitments and Contingencies

At December 31, 2007, we had letters of credit in the amount of $24.9 million. No amounts were drawn against these letters of credit at December 31, 2007. These letters of credit exist to support insurance programs relating to workers' compensation, automobile and general liability, and leases.

We are subject to various legal proceedings in the course of conducting our businesses and, from time to time, we may become involved in additional claims and lawsuits incidental to our businesses. In the opinion of management, after consultation with counsel, any ultimate liability arising out of currently pending claims and

lawsuits is not currently expected to have a material effect on our consolidated financial position or results of operations. Nevertheless, we cannot predict the impact of future developments affecting our pending or future claims and lawsuits. We expense legal costs as incurred, and all recorded legal liabilities are adjusted as required as better information becomes available to us. The factors we consider when recording an accrual for contingencies include, among others: (i) the opinions and views of our legal counsel; (ii) our previous experience; and (iii) the decision of our management as to how we intend to respond to the complaints.

Note L – Leases

We lease 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 $31.1 million, $28.2 million and $27.5 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Step rent provisions and escalation clauses, capital improvement funding, rent holidays and other lease concessions are taken into account in computing minimum lease payments. We recognize the minimum lease payments on a straight-line basis over the minimum lease term.

The future minimum rental commitments for all non-cancelable operating leases with terms in excess of one year as of December 31, 2007 are as follows:

In thousands	
2008	$23,972
2009	21,406
2010	16,455
2011	9,586
2012	7,044
After 2012	12,305
	$90,768

Note M – Selected Quarterly Data (Unaudited)

In thousands, except per share amounts	2007 Quarter Ended December 31	September 30	June 30	March 31	2006 Quarter Ended December 31	September 30	June 30	March 31
Revenues	$ 303,017	$ 286,696	$ 290,145	$ 283,028	$ 313,240	$ 294,681	$ 298,372	$ 278,395
Operating income	47,233	40,000	41,579	36,115	50,328	44,606	51,548	39,570
Net income	27,536	21,882	22,895	20,327	30,157	27,663	30,189	23,783
Basic earnings per share	$ 0.39	$ 0.30	$ 0.31	$ 0.27	$ 0.40	$ 0.35	$ 0.38	$ 0.29
Diluted earnings per share	$ 0.39	$ 0.30	$ 0.31	$ 0.27	$ 0.39	$ 0.35	$ 0.37	$ 0.29

Earnings per common share amounts are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share amounts may not equal the annual earnings per share.

Note N – Earnings Per Share

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

In thousands, except per share amounts	Year Ended December 31, 2007	2006	2005
Basic EPS			
Net income	$ 92,640	$ 111,792	$ 114,458
Weighted-average common shares outstanding used in earnings per share computations	72,524	79,049	83,734
Earnings per share	$ 1.28	$ 1.41	$ 1.37
Diluted EPS			
Net income	$ 92,640	$ 111,792	$ 114,458
Shares used in diluted earnings per share computations	73,703	80,646	85,406
Earnings per share	$ 1.26	$ 1.39	$ 1.34
Computation of Shares Used in Earnings Per Share Computations			
Average outstanding common shares	72,524	79,049	83,734
Average common equivalent shares — dilutive effect of option shares	1,179	1,597	1,672
Shares used in diluted earnings per share computations	73,703	80,646	85,406

For the purpose of calculating the shares used in the diluted EPS calculations, 2.5 million, 1.8 million and 42,000 anti-dilutive market price options have been excluded from the EPS calculations for the years ended December 31, 2007, 2006 and 2005, respectively.

Note O – Business Segments

We are a worldwide direct and targeted marketing company with operations in two segments – Direct Marketing and Shoppers.

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

We use various capabilities and technologies to enable our clients to identify, reach, influence and nurture their customers. Harte-Hanks Direct Marketing improves the return on its clients' marketing investment by increasing their prospect and customer value through solutions and services organized around five groupings of integrated activities:

- Information (data collection/management);
- Opportunity (data access/utilization);
- Insight (data analysis/interpretation);
- Engagement (program and campaign creation and development); and
- Interaction (program execution).

Harte-Hanks Shoppers is North America's largest owner, operator and distributor of shopper publications, based on weekly circulation and revenues. Shoppers are weekly advertising publications delivered free by Standard Mail to households and businesses in a particular geographic area. Shoppers offer advertisers a targeted, cost-effective local advertising system, with virtually 100% penetration in their area of distribution. As of December 31, 2007, our Shoppers publications are zoned into 1,077 separate editions with total circulation of approximately 13 million in California and Florida each week. Shoppers are particularly effective in large markets with high media fragmentation in which major metropolitan newspapers generally have low penetration. Our Shoppers clients range from large national companies to local neighborhood businesses to individuals with a single item for sale. The segment's core clients are local service businesses and small retailers. Shoppers client base is entirely domestic.

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

Information about our operations in different business segments is set forth below based on the nature of the products and services offered. We evaluate 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).

	Year Ended December 31,		
In thousands	2007	2006	2005
Revenues			
Direct Marketing	$ 732,461	$ 709,728	$ 694,558
Shoppers	430,425	474,960	440,435
Total revenues	$ 1,162,886	$ 1,184,688	$1,134,993
Operating income			
Direct Marketing	$ 108,796	$ 109,458	$ 108,095
Shoppers	70,784	88,814	94,231
Corporate Activities	(14,653)	(12,220)	(12,313)
Total operating income	$ 164,927	$ 186,052	$ 190,013
Income before income taxes			
Operating income	$ 164,927	$ 186,052	$ 190,013
Interest expense	(12,992)	(6,333)	(1,957)
Interest income	539	231	197
Other, net	(1,337)	(702)	(1,774)
Income before income taxes	$ 151,137	$ 179,248	$ 186,479
Depreciation			
Direct Marketing	$ 25,569	$ 24,618	$ 23,721
Shoppers	7,606	6,930	6,174
Corporate Activities	20	18	23
Total depreciation	$ 33,195	$ 31,566	$ 29,918
Other intangible amortization			
Direct Marketing	$ 2,347	$ 1,303	$ 620
Shoppers	1,162	1,163	807
Total goodwill and intangible amortization	$ 3,509	$ 2,466	$ 1,427
Capital expenditures			
Direct Marketing	$ 21,270	$ 25,758	$ 18,264
Shoppers	6,947	7,935	9,914
Corporate Activities	–	15	37
Total capital expenditures	$ 28,217	$ 33,708	$ 28,215

In thousands	Year Ended December 31, 2007	2006
Total assets		
Direct Marketing	$ 657,462	$ 642,843
Shoppers	269,910	273,656
Corporate Activities	24,554	52,786
Total assets	$ 951,926	$ 969,285
Goodwill		
Direct Marketing	$ 376,096	$ 377,860
Shoppers	167,487	167,487
Total goodwill	$ 543,583	$ 545,347
Other intangible assets		
Direct Marketing	$ 8,141	$ 9,488
Shoppers	12,798	13,960
Total other intangible assets	$ 20,939	$ 23,448

Information about the operations in different geographic areas:

In thousands	Year Ended December 31, 2007	2006	2005
Revenues [a]			
United States	$ 1,100,820	$ 1,121,401	$1,068,981
Other countries	62,066	63,287	66,012
Total revenues	$ 1,162,886	$ 1,184,688	$1,134,993
Long-lived net assets [b]			
United States	$ 95,685	$ 99,767	
Other countries	16,669	16,824	
Total long-lived assets	$ 112,354	$ 116,591	

a Geographic revenues are based on the location of the client.
b Long-lived assets are based on physical location.

INDEX TO EXHIBITS

We are incorporating certain exhibits listed below by reference to other Harte-Hanks filings with the Securities and Exchange Commission, which we have identified in parentheses after each applicable exhibit.

Exhibit No.	Description of Exhibit
Charter Documents	
3(a)	Amended and Restated Certificate of Incorporation as amended through May 5, 1998 (filed as Exhibit 3(e) to the Company's Form 10-Q for the six months ended June 30, 1998).
3(b)	Second Amended and Restated Bylaws (filed as Exhibit 3(b) to the Company's Form 10-Q for the nine months ended September 30, 2001).
Instruments Defining Rights of Security Holders	
4(a)	Registration Rights Agreement dated as of September 11, 1984 among HHC Holding Inc. and its stockholders (filed as Exhibit 10(b) to the Company's Form 10-K for the year ended December 31, 1993).
Credit Agreements	
10.1(a)	Credit Agreement by and between the Company and JPMorgan Chase Bank, N.A., as administrative agent, dated August 12, 2005 (filed as Exhibit 10.1 to Company's Form 8-K dated August 12, 2005).
10.1(b)	Term Loan Agreement by and between the Company and Wells Fargo Bank, N.A., as administrative Agent, dated September 6, 2006 (filed as Exhibit 10.1 to Company's Form 8-K dated September 6, 2006).
10.1(c)	First Amendment to Term Loan Agreement by and between the Company and Wells Fargo Bank, N.A., as administrative Agent, dated September 18, 2006 (filed as Exhibit 10.1 to Company's Form 8-K dated September 18, 2006).
10.1(d)	Revolving Loan Agreement dated as of January 18, 2008 between Harte-Hanks, Inc., the Lenders Party Thereto, and Wells Fargo Bank, N.A., as Administrative Agent, Sole Lead Arranger and Sole Book Runner (filed as Exhibit 10.1 to Company's Form 8-K dated January 18, 2008).
Management and Director Compensatory Plans and Forms of Award Agreements	
10.2(a)	Harte-Hanks, Inc. Amended and Restated Restoration Pension Plan dated as of January 1, 2000 (filed as Exhibit 10(f) to the Company's Form 10-K for the year ended December 31, 1999).
10.2(b)	Amendment One to Harte-Hanks, Inc. Amended and Restated Restoration Plan dated December 18, 2000 (filed as Exhibit 10(l) to the Company's Form 10-K for the year ended December 31, 2000).

10.2(c)	Harte-Hanks, Inc. Deferred Compensation Plan (filed as Exhibit 10(i) to the Company's Form 10-K for the year ended December 31, 1998).
10.2(d)	Harte-Hanks, Inc. 1998 Director Stock Plan (filed as Exhibit 10(h) to the Company's Form 10-Q for the six months ended June 30, 1998).
10.2(e)	Harte-Hanks Communications, Inc. 1996 Incentive Compensation Plan (filed as Exhibit 10(p) to the Company's Form 10-Q for the six months ended June 30, 1996).
10.2(f)	Harte-Hanks, Inc. Amended and Restated 1991 Stock Option Plan (filed as Exhibit 10(g) to the Company's Form 10-Q for the six months ended June 30, 1998).
10.2(g)	Form of Non Qualified Stock Option Agreement for employees granted under the Amended and Restated 1991 Stock Option Plan (filed as Exhibit 10(i) to the Company's Form 10-K for the year ended December 31, 2005).
10.2(h)	Form of Non Qualified Stock Option Agreement for directors granted Under the Amended and Restated 1991 Stock Option Plan (filed as Exhibit 10(j) to the Company's Form 10-K for the year ended December 31, 2005).
10.2(i)	Form of Non-Qualified Performance Stock Option Agreement for grants dated January 6, 1997, September 24, 1997, January 7, 1998 and January 28, 1998 (filed as Exhibit 10.2.a to the Company's Form 8-K dated December 15, 2005).
10.2(j)	Form of Non-Qualified Performance Stock Option Agreement for grants dated January 12, 1999 and January 25, 1999 (filed as Exhibit 10.2.b to the Company's Form 8-K dated December 15, 2005).
10.2(k)	Form of Amendment to Harte-Hanks, Inc. Non-Qualified Performance Stock Option Agreement for certain officers (filed as Exhibit 10.1.a to the Company's Form 8-K dated December 15, 2005).
10.2(l)	Form of Amendment to Harte-Hanks, Inc. Non-Qualified Performance Stock Option Agreement for non-officers. (filed as Exhibit 10.1.b to the Company's Form 8-K dated December 15, 2005).
10.2(m)	2005 Omnibus Incentive Plan (filed as Annex A to the Company's Definitive 14A Proxy Statement filed on April 15, 2005).
10.2(n)	First Amendment to the Harte-Hanks, Inc. 2005 Omnibus Incentive Plan, dated February 1, 2007 (filed as Exhibit 10.1 to the Company's Form 10-Q for the three months ended March 31, 2007).
10.2(o)	Form of 2005 Omnibus Non-Qualified Stock Option Agreement (filed as Exhibit 10(p) to the Company's Form 10-K for the year ended December 31, 2005).

10.2(p)	Form of 2005 Omnibus Incentive Plan Bonus Stock Agreement (filed as Exhibit 10.1 to the Company's Form 8-K dated January 25, 2006).
10.2(q)	Form of 2005 Omnibus Incentive Plan Restricted Stock Award Agreement (filed as Exhibit 10.2 to the Company's Form 8-K dated January 25, 2006).
10.2(r)	Form of 2005 Omnibus Incentive Plan Performance Unit Award Agreement (filed as Exhibit 10.3 to the Company's Form 8-K dated January 25, 2006).
*10.2(s)	Summary of Non-Employee Directors' Compensation.

Executive Officer Employment and Separation Agreements

10.3(a)	Transition and Consulting Agreement, dated as of August 29, 2007, by and between Harte-Hanks, Inc. and Richard Hochhauser (filed as Exhibit 10.1 to the Company's Form 8-K dated August 29, 2007).
10.3(b)	Severance Agreement between the Company and Pete Gorman (filed as Exhibit 10(f) to the Company's Form 10-K for the year ended December 31, 2000).
10.3(c)	Form of Change of Control Severance Agreement between the Company and its President and Chief Executive Officer and its Executive Vice Presidents (other than Pete Gorman) and Senior Vice Presidents (filed as Exhibit 10(e) to the Company's Form 10-K for the year ended December 31, 2000).
10.3(d)	Form of Change of Control Severance Agreement between the Company and its Vice Presidents (filed as Exhibit 10.1 on the Company's Form 8-K dated June 13, 2005).
10.3(e)	Agreement between Harte-Hanks, Inc. and Larry Franklin regarding role of Chairman of the Board of Directors of Harte-Hanks, Inc. dated as of April 1, 2002 (filed as Exhibit 10(m) to the Company's Form 10-Q for the three months ended March 31, 2002).
10.3(f)	Severance Agreement between Harte-Hanks, Inc. and Larry Franklin, dated as of December 15, 2000 (filed as Exhibit 10(c) to the Company's Form 10-K for the year ended December 31, 2000).
10.3(g)	Form of Non-Compete Agreement signed by certain officers and certain employees of the Company (filed as Exhibit 10.4 to the Company's Form 8-K dated January 25, 2006).

Other Exhibits

*21	Subsidiaries of the Company
*23	Consent of KPMG LLP
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Furnished Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Furnished Certification of Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Filed or furnished herewith, as applicable

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dean Blythe, President and Chief Executive Officer of Harte-Hanks, Inc. (the "Company"), certify that:

1. I have reviewed this annual report on Form 10-K of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 29, 2008
Date

/s/ Dean Blythe
Dean Blythe
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Douglas Shepard, Executive Vice President and Chief Financial Officer of Harte-Hanks, Inc. (the "Company"), certify that:

1. I have reviewed this annual report on Form 10-K of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 29, 2008
Date

/s/ Douglas Shepard
Douglas Shepard
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Dean Blythe, President and Chief Executive Officer of Harte-Hanks, Inc. (the "Company"), hereby certify that the accompanying report on Form 10-K for the year ended December 31, 2007 and filed with the Securities and Exchange Commission on the date hereof pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Report") by the Company fully complies with the requirements of those sections.

I further certify that, based on my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 29, 2008
Date

/s/ Dean Blythe
Dean Blythe
President and Chief Executive Officer

Note: This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Douglas Shepard, Executive Vice President and Chief Financial Officer of Harte-Hanks, Inc. (the "Company"), hereby certify that the accompanying report on Form 10-K for the year ended December 31, 2007 and filed with the Securities and Exchange Commission on the date hereof pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Report") by the Company fully complies with the requirements of those sections.

I further certify that, based on my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 29, 2008	/s/ Douglas Shepard
Date	Douglas Shepard Executive Vice President and Chief Financial Officer

Note: This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Mixed Sources

Product group from well-managed
forests, controlled sources and
recycled wood or fiber

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