

HARTE HANKS INC
Form 10-K
March 13, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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

For the transition period from _____ to _____

Commission file number 001-7120

HARTE-HANKS, INC.

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(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

74-1677284

(I.R.S. Employer
Identification No.)

9601 McAllister Freeway, Suite 610, San Antonio, Texas
(Address of principal executive offices)

78216
(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 No

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

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

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

Indicate by check mark 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.

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price (\$9.14) as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2012), was approximately \$437,258,000.

The number of shares outstanding of each of the registrant's classes of common stock as of January 31, 2013 was 62,395,489 shares of common stock, all of one class.

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Documents incorporated by reference:

Portions of the Proxy Statement to be filed for the Company's 2013 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.

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Harte-Hanks, Inc. and Subsidiaries

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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 multichannel direct and digital 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 certain California markets.

Virtually all for-profit organizations, as well as many non-profit organizations, rely on marketing to generate revenues and publicity. Many businesses have a chief-level executive responsible for marketing who is charged with combining data, technology, channels and resources to demonstrate a return on marketing investment. This has led many businesses to use direct and targeted marketing, which offer accountability and measurability of marketing programs, allowing customer insight to be leveraged to create and accelerate value. Direct Marketing, which represented 76% of our total revenues in 2012, is a leader in the movement toward highly targeted, multichannel marketing. Our Shoppers business applies geographic targeting principles, providing approximately 780 zones for local marketing.

Harte-Hanks® is the successor to a newspaper business started by Houston Harte and Bernard Hanks in Texas in the early 1920s. 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.

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 <http://www.harte-hanks.com>. These documents are provided as soon as practical after they are filed with the SEC and 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

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Our Direct Marketing services offer a wide variety of integrated, multichannel, data-driven solutions for top brands around the globe. We help our clients gain insight into their customers' behaviors from their data and use that insight to create innovative multichannel marketing programs to deliver a return on marketing investment. We believe our clients' success is determined not only by how good their tools are, but how well we help them use the tools to gain insight and analyze their consumers. This results in a strong and enduring relationship between our clients and their customers.

We offer a full complement of capabilities and resources to provide a broad range of marketing services and data management software, in media from direct mail to email.

- **Agency & Digital Services.** The Agency Inside Harte-Hanks® and Mason Zimble® are full-service, customer engagement agencies specializing in direct and digital communications for both consumer and business-to-business markets. With strategy, creative and implementation services, we help marketers within targeted industries understand, identify, and engage prospects and customers in their channel of choice. Our digital solutions integrate online services within the marketing mix and include: website development and design, digital strategy, social media marketing and monitoring, email marketing, ecommerce and interactive relationship management and a host of other services that support our core businesses.

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- **Database Marketing Solutions.** We have successfully delivered marketing database solutions for over 35 years across various industries. Our solutions are built around centralized marketing databases with three core offerings: insight and analytics; customer data integration; and marketing communications tools. Our solutions enable organizations to build and manage customer communication strategies that drive new customer acquisition and retention and maximize the value of existing customer relationships. Through insight, we help clients identify models of their most profitable customer relationships and then apply these models to increase the value of existing customers while also winning profitable new customers. Through customer data integration, data from multiple sources comes together to provide a single customer view of client prospects and customers. Then, utilizing our Allink® suite of customer communication and sales optimization tools, we help clients apply their data and insights to the entire customer lifecycle, to help clients sustain and grow their business, gain deeper customer insights, and continuously refine their customer resource management strategies and tactics.
- **Trillium Software® Data Quality and Service Solutions.** Our proprietary software has helped global customers more effectively analyze, enrich, cleanse and report on their product, financial and customer data as part of master data management, data governance, CRM, data warehousing and integration initiatives. With industry-leading Trillium Software System®, Global Locator geocoding product, and associated data governance services, business users can optimize data-based business processes and transactions, realize efficiencies, and enhance the accuracy of their master set of data-improving program results.
- **Business-to-Business Lead Generation.** Our technology marketing solutions provide business-to-business lead generations through our CI Technology Database® and Aberdeen Group®. Our CI Technology Database tracks technology installations, business demographics and over 5 million key decision makers at more than 4.5 million business locations in 25 countries in North America, Latin America, Europe and China. Our clients use the data to gain insight into their prospect's and client's technology buying cycles. Our Aberdeen Group is a provider of fact-based research to identify and educate technology buyers across numerous industries and product categories. Leading technology providers use Aberdeen's proprietary research content for use in their demand creation programs, online marketing campaigns and Web-based sales and marketing tools.
- **Direct Mail and Fulfillment.** As a full-service direct marketing provider and one of the largest mailing partners of the United States Postal Service (USPS®), our operational mandate is to ensure creativity and quality, provide an understanding of the options available in technologies and segmentation strategies and capitalize on economies of scale with our variety of execution options. Our services include digital printing, print on demand, advanced mail optimization, logistics and transportation optimization, tracking (including our proprietary prEtrak® solution), commingling, shrink wrapping and specialized mailings. We also maintain fulfillment centers throughout the United States where we provide custom kitting services, print on demand, product recalls and freight optimization allowing our customers to distribute literature and other marketing materials. With facilities strategically placed nationwide, we are among the largest solo mailers in the country other than the U.S. government.
- **Contact Centers.** We operate teleservice workstations around the globe providing advanced contact center solutions such as: speech, chat, integrated voice response, email, social cloud monitoring and web self-service. We provide both inbound and outbound contact center services and support many languages with our strategically placed global locations for both consumer and business-to-business markets.

Many of our client relationships start with an offering from the list above on an individual solution basis to the client or a combination of our offerings from across our portfolio of businesses. Multichannel marketing is communicating through different marketing solutions or channels, such as email, mobile devices, mail, radio, television, computer, and newspaper, in an integrated form to reach a consumer so it is easy for a consumer to buy in whatever manner the consumer chooses.

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In 2012, 2011 and 2010, Harte-Hanks Direct Marketing had revenues of \$581.1 million, \$614.3 million, and \$601.3 million, respectively, which accounted for approximately 76%, 76%, and 73% of our total revenues, respectively.

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 primarily to the retail, high-tech/telecom, financial services and pharmaceutical/healthcare vertical markets, in addition to a range of selected markets. The largest Direct Marketing client (measured in revenue) comprised 6% of total Direct Marketing revenues in 2012 and 5% of our total revenues in 2012. The largest 25 clients in terms of revenue comprised 42% of total Direct Marketing revenues in 2012 and 32% of our total revenues in 2012.

Sales and Marketing

Our enterprise sales force is organized around the five verticals we service: retail, high-tech/telecom, financial services, pharmaceutical/healthcare, and a wide range of selected markets. The enterprise sales force sells a variety of solutions and services to address client's targeted marketing needs. We also maintain solution-specific sales forces and sales groups to sell our individual products and solutions. Our 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 assigned to specific clients. We rely on our enterprise and solution sellers to primarily sell our products and services to new clients and task our employees supporting existing clients to expand our client relationship through additional solutions and products.

Direct Marketing Facilities

Direct marketing services are provided at the following facilities, all of which are leased except as otherwise noted:

National Offices

Austin, Texas
Baltimore, Maryland
Billerica, Massachusetts
Boston, Massachusetts
Cincinnati, Ohio
Deerfield Beach, Florida
East Bridgewater, Massachusetts
Fort Worth, Texas
Fullerton, California

Grand Prairie, Texas
Jacksonville, Florida
Maitland, Florida
Langhorne, Pennsylvania
Linthicum Heights, Maryland
New York, New York
Ontario, California
San Diego, California
Shawnee, Kansas
Texarkana, Texas
Wilkes-Barre, Pennsylvania
Yardley, Pennsylvania

International Offices

Boeblingen, Germany
Bristol, United Kingdom
Frankfurt, Germany
Hasselt, Belgium owned site
Madrid, Spain
Manila, Philippines
Melbourne, Australia
São Paulo, Brazil
Sydney, Australia
Theale, United Kingdom
Uxbridge, United Kingdom
Versailles, France

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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 rapid technological change, 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. Our competition comes from numerous local, national and international direct marketing and advertising companies, and client internal resources, against whom we compete for individual projects, entire client relationships and marketing expenditures. Competitive factors in our industry include the quality and scope of services, technical and strategic expertise, the perceived value of the services provided, 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 revenues tend to be higher in the fourth quarter than 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, 7 by 10 inches in size, distributed free by USPS saturation 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 its areas 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 online advertising and other services through our website, *PennySaverUSA.com*®, as well as business websites and search engine marketing. Our websites serve as advertising portals, bringing buyers and sellers together through our online offerings, including local classifieds, business listings, coupons, special offers and PowerSites®. PowerSites are templated web sites for our customers, optimized to help small and medium-sized business owners establish a web presence and improve their lead generation through call tracking. At December 31, 2012, we were publishing approximately 5,600 PowerSites weekly.

On December 31, 2012, we sold the assets of our Florida Shoppers operations, The Flyer®, for gross proceeds of \$2.0 million, subject to working capital adjustments. This transaction resulted in an after-tax loss of \$2.7 million. After this sale, Harte-Hanks Shoppers no longer has any operations or circulation in Florida.

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Now all of our Shopper operations are located in California, and our California publications account for all Shoppers circulation. As of December 31, 2012, Shoppers delivered approximately 9.1 million shopper packages in six major markets each week, covering Southern, Central and Northern California.

As of December 31, 2012, Harte-Hanks Shoppers published approximately 780 individual shopper editions each week, distributed to zones with circulation of approximately 11,600 in each zone. This allows single-location, local advertisers to saturate a single relevant geographic zone, while enabling multiple-location advertisers to saturate multiple zones. This unique distribution system gives large and small advertisers alike a

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cost-effective way to reach their target markets. 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, which we believe allows our advertisers to effectively target their customers. Distribution products are zoned into smaller segments called sub-zones to allow further targeting, primarily for larger accounts targeting specific demographics or store locations; at December 31, 2012 Harte-Hanks offered 2,025 subzones.

In 2012, 2011, and 2010, excluding the Florida Shoppers operations, Harte-Hanks Shoppers had revenues of \$186.6 million, \$197.4 million, and \$219.4 million, respectively, accounting for approximately 24%, 24%, and 27% of our total revenues, respectively.

Publications

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

Market	Publication Name	Weekly Circulation	December 31, 2012	
			Zones	Sub-Zones
Greater Los Angeles	<i>PennySaverUSA.com</i>	3,104,082	282	705
Orange County	<i>PennySaverUSA.com</i>	1,054,361	92	270
Inland Empire	<i>PennySaverUSA.com</i>	1,484,720	122	278
San Diego County	<i>PennySaverUSA.com</i>	1,171,601	98	247
Bay Area	<i>PennySaverUSA.com</i>	1,394,632	110	333
Sacramento/Central Valley	<i>PennySaverUSA.com</i>	898,904	79	192
Total		9,108,300	783	2,025