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 [FEE REQUIRED]**

For the fiscal year ended December 31, 2002

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

For the transition period from ____________ to ______________

Commission File Number 1-7120

HARTE-HANKS, INC.

(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 Number)
200 Concord Plaza Drive **San Antonio, Texas** (Address of principal executive officers)	**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
(Title of class)

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 disclosure of delinquent filings 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. Yes ☑ No ☐

Indicate by checkmark whether registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☑ No ☐

Aggregate market value of the Company's voting and non-voting stock held by non-affiliates based on the $20.55 per share closing price for the Company's Common Stock on the New York Stock Exchange on the registrants most recently completed fiscal quarter: approximately $1,230,000,000.

Shares Outstanding at January 31, 2003:
Common Stock—90,301,699

DOCUMENTS INCORPORATED BY REFERENCE:

The Company's Annual Report to Stockholders for the year ended December 31, 2002 (incorporated in Part II to the extent provided in Items 5, 6, 7 and 8 hereof).

Definitive Proxy Statement for the Company's May 6, 2003 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (incorporated in Part III to the extent provided in Items 10, 11 and 12 hereof).

Harte-Hanks, Inc.
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Form 10-K Report
December 31, 2002

ITEM 1. BUSINESS AND ITEM 2. PROPERTIES

INTRODUCTION

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.

The Company's direct marketing business operates both nationally and internationally, while its shopper business operates in selected local and regional markets in California and Florida. The Company believes that marketing is undergoing a transition from traditional mass media marketing to direct and targeted marketing. The transition is being driven by the increasing sophistication and efficiency of technology and a growing need among marketers to customize the products and services they offer to customers. Direct marketing, which represented 63% of the Company's revenues in 2002, is leading the movement toward highly targeted marketing. The Company's shopper business applies similar targeting principles. Harte-Hanks strategy is based on five key elements: being a market leader in each of its businesses; increasing revenues through growing its base businesses, introducing new products, entering new markets and making acquisitions; using technology to create competitive advantages; employing people who can partner effectively with its clients; and creating shareholder value. Company revenues totaled $908.8 million in 2002.

Harte-Hanks is the successor to a newspaper business begun in Texas in the early 1920's by Houston Harte and Bernard Hanks. In 1972, the Company went public and was listed on the New York Stock Exchange. The Company became private in a leveraged buyout initiated by management in 1984. In 1993, the Company again went public and listed its common stock on the NYSE. In October 1997, the Company sold all of its remaining traditional media operations (consisting of newspapers, television and radio companies) in order to focus all of its efforts on its direct marketing services and shoppers operations.

See Note N of "Notes to Consolidated Financial Statements" for certain financial information about the Company's two business segments – direct marketing and shoppers.

Harte-Hanks provides public access to all reports filed with the Securities and Exchange Commission (the ("SEC") under the 1934 Securities and Exchange Act (the "1934 Act"). These documents may be accessed free of charge on Harte-Hanks' 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.

DIRECT MARKETING

General

Harte-Hanks operates a worldwide direct and targeted marketing company that provides direct marketing services to a wide range of local, regional, national and international consumer and business-to-business marketers. The Company utilizes advanced technologies to enable its clients to identify, reach, influence and nurture their customers. The Company believes that developments in technology and trends toward more sophisticated marketing analysis and measurement will continue to result in increased usage of direct marketing services. Harte-Hanks Direct Marketing improves the return on its clients' marketing investment with a range of services organized around five solution points: Construct and update the database – Access the data – Analyze the data – Apply the knowledge – Execute the programs. The Company's client base is both domestic and international. In 2002, Harte-Hanks Direct Marketing had revenues of $573.8 million, which accounted for approximately 63% of the Company's total revenues.

Harte-Hanks Direct Marketing uses technology as an enabler to capture, to analyze and to disseminate customer and prospect data across all points of customer contact. The Company helps clients manage the inquiries they receive from their marketing efforts, whether from Web sites, e-mail, toll-free numbers, trade shows, fax programs or other sources. 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 more effectively manage their customer and prospect relationships. Using proprietary software and open software solutions, the Company also builds contact databases for its clients using the information gained from these activities. These databases help clients measure the return on their marketing communications and make more informed decisions about future marketing efforts.

The Company also builds customized marketing databases for specific clients and provides them with easy-to-use tools to perform analysis and to target their best customers and prospects. Using its proprietary name and address matching software, the Trillium Software System®, the Company standardizes large numbers of customer records from multiple sources, integrates them into a single database for each client and, if needed, appends demographic and lifestyle information.

In most cases, these databases are delivered for use on clients' personal computers, networks or workstations, where the Company's software applications and solutions help clients predict the likely results of marketing promotions and track recipients' buying behavior. Relational databases are built for clients from a range of facilities, each specializing in specific market segments. These databases are moved to the client's site or maintained at Harte-Hanks with online access to client locations. In addition to building a client's database and providing software solutions for analytics and campaign management, Harte-Hanks performs regular database updates. Harte-Hanks also offers its software module, the Trillium Software System®, for clients who want to integrate data quality capabilities into their data warehouse or operational systems.

In addition, the Company operates as a service bureau, preparing list selections, maximizing deliverability and reducing clients' mailing costs through 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, Harte-Hanks provides 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.

Harte-Hanks also provides a variety of services to help clients develop and execute targeted marketing communication programs. These include such upfront services as creative and graphics, along with back-end services such as printing, personalization of communication pieces using laser and inkjet printing, target mail and fulfillment, and transportation logistics.

The Company's mail tracking capability and long-standing relationships with the U.S. Postal Service help ensure that customer mailings reach their destinations on time. And, by controlling the final stage of the print distribution process through its logistics operations, the Company facilitates the delivery of its clients' materials while holding costs to a minimum.

Increasingly, clients seek execution programs as part of Harte-Hanks' end-to-end solutions. Harte-Hanks also offers direct marketing agency services to create the plan to manage direct marketing communication efforts. These services combine information-based strategy and brand-building creative efforts across both traditional direct and interactive media.

Direct marketing services are marketed to specific industries or markets with services and software products tailored to each industry or market. Having established the basic technological foundation, the Company is able to provide services to new industries and markets by modifying its existing technology and information applications. The Company currently provides direct marketing services to all of its primary markets in addition to a range of select markets.

The Company strengthened its suite of offerings by forming a number of strategic alliances during the year. Harte-Hanks Trillium Software™ joined the Siebel Alliance Program as a Premier Software Partner in 2001, and in 2002 announced that the Trillium Software System's version 6 data quality connector to Siebel 7 eBusiness Application have been successfully validated by Siebel. With this validation, customers of Siebel Systems and Harte-Hanks Trillium Software can ensure global data quality for users of Siebel 7. Harte-Hanks Trillium Software™ also partnered with Acta Technology, the creator of the first data integration platform to combine batch and real-time data movement, to provide a new Acta Works Trillium Software Java interface. This interface allows Harte-Hanks and Acta customers to parse and cleanse data, whether in batch or real-time. Harte-Hanks announced the availability of e.Vantage™, a Web-based solution specifically designed for community banks and credit unions that combines Harte-Hanks expertise in profitability modeling, customer and prospect data management, professional services and marketing, with the enterprise wide capabilities of the E.piphany E.6 system. In addition, Harte-Hanks introduced two new applications which incorporated Unica's Affinium applications. Harte-Hanks introduced its Alllink® Innovato solution, a Web-based application that combines Harte-Hanks' expertise in customer data management, professional services, analytics and vertical marketing expertise with the modeling and campaign management functionality of Unica's Affinium enterprise marketing management suite. Harte-Hanks also introduced Harte-Hanks M/CIS™ Modeling, a new analytics application to Harte-Hanks M/CIS™ database solution that allows marketers to integrate modeling into more of their campaigns, enabling them to spend less time on data preparation and more time on strategic analysis. Harte-Hanks M/CIS™ Modeling is designed to help marketers increase the return on their database investment by incorporating Unica's Affinium Model™ predictive modeling application.

The Company also entered into a number of partnerships to distribute Trillium Software System® throughout the world. Harte-Hanks partnered with Queensway Information Technologies Co., Ltd. to distribute Trillium Software in China, partnered with Muse Technology to distribute in the Taiwan marketplace, partnered with Lexken Corporation to distribute in South Korea, partnered with Forge Data Solutions to distribute in Australia and New Zealand, partnered with NetPartners Sdn. Bhd. to distribute to Malaysia and Brunei and partnered with StepDot Software GmbH to distribute in Germany.

Depending on the needs of its clients, Harte-Hanks Direct Marketing capabilities are provided in a specialized, coordinated and integrated approach through 30 facilities nationwide. These centers possess some industry specialization and are linked together to support certain clients that experience volume spikes or seek high-growth needs. The Company also provides direct marketing services internationally through nine offices located outside of the United States.

Sales and Marketing

The national direct marketing sales forces of Harte-Hanks are headquartered in Cincinnati, Ohio, with additional offices maintained throughout the United States and Europe, as well as office locations in Australia and South America. In addition, the Company has affiliates in 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 and a single-source solution for a client's targeted marketing needs.

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Direct Marketing Facilities

Direct marketing services are provided at the following facilities:

National Offices
Austin, Texas
Baltimore, Maryland
Bellmawr, New Jersey
Billerica, Massachusetts
Bloomfield, Connecticut
Cincinnati, Ohio
Clearwater, Florida
Dallas/Grand Prairie, Texas
Deerfield Beach, Florida
Fort Worth, Texas
Forty Fort, Pennsylvania
Fullerton, California
Glen Burnie, Maryland
Jacksonville, Florida
La Jolla, California
Lake Katrine, New York
Lake Mary, Florida
Langhorne, Pennsylvania
Memphis, Tennessee
Monroe Township, New Jersey
New York, New York
Ontario, California
River Edge, New Jersey
San Diego, California
Shawnee, Kansas
Sterling Heights, Michigan
Valencia, California
Vineland, New Jersey
West Bridgewater, Massachusetts
Westville, New Jersey

National Sales Headquarters
Cincinnati, Ohio

International Offices
Darmstadt, Germany
Dublin, Ireland
Hasselt, Belgium
London, United Kingdom
Madrid, Spain
Melbourne, Australia
São Paulo, Brazil
Sevres, France
Uxbridge, United Kingdom

For more information please refer to the subsection entitled “General Facilities” in this report.

Competition

Harte-Hanks' direct marketing business faces competition from other direct marketing companies in each sector, as well as from print and electronic media and other forms of advertising. Harte-Hanks believes that its state-of-the-art capabilities, combined with its national production capability, industry focus and ability to offer a full range of integrated services, enable the Company to compete effectively.

SHOPPERS

General

Harte-Hanks is the largest publisher of advertising shoppers in North America based on weekly circulation and revenues, and is the only national targeted media company that focuses on shoppers as a core business. Shoppers are weekly advertising publications delivered free by third-class mail to all households in a particular geographic area. Shoppers offer advertisers a targeted, cost-effective local advertising system, with virtually 100% penetration in their area of distribution. Shoppers are particularly effective in large markets with high media fragmentation in which major metropolitan newspapers generally have low penetration.

As of December 31, 2002, Shoppers delivered more than 10 million shopper packages in four 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 and Stockton) and South Florida. (Shopper publications overlap in approximately 220,000 households in South Orange County where both an "early" and "late" edition *PennySaver* is published each week.). The Company's California publications account for 88% of Shopper's weekly circulation.

Harte-Hanks publishes 833 individual shopper editions each week distributed to zones of approximately 12,300 households 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. The Company believes that its zoning capabilities and production technologies have enabled it to saturate and target areas in a number of ways including geographic, demographic, lifestyles, behavioral and language. This allows its advertisers to effectively target their customers. The Company's strategy is to increase its share of local advertising in its existing circulation areas, and, over time, to increase circulation through internal expansion into contiguous areas. In 2002, Harte-Hanks Shoppers had revenues of $335.0 million, accounting for approximately 37% of the Company's total revenues.

During the period 1998 through 2002, almost 900,000 households were added to the Company's shopper circulation through internal expansion. The Company believes that expansions provide increased revenues and operating income as the publications in these new areas mature. The Company now reaches more than 8.8 million households in California, or nearly 75% of the state's total.

Publications

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

Market	Publication Name	December 31, 2002 Circulation	December 31, 2002 Number of Zones
Greater Los Angeles	PennySaver	5,124,000	438
Greater San Diego	PennySaver	1,719,000	135
Northern California	PennySaver	2,192,500	163
South Florida	The Flyer	1,181,700	97
Total:		10,217,200	833

Shopper publications contain classified and display advertising and are primarily delivered to consumers' homes by third-class saturation mail. The typical shopper publication contains over 40 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 the Company; coupon books; preprinted inserts from major retail chains; and a four-color proprietary product, MARQUEE. In addition, Shoppers offer advertising over its internet sites – www.pennysaverusa.com for its California publications and www.theflyer.com for its South Florida publication.

The Company has acquired, developed and applied innovative technology and customized equipment in the publication of its shoppers, contributing to efficiency and growth. A proprietary pagination system has made it possible for the hundreds of 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.

Sales and Marketing

The Company maintains local sales offices throughout its geographic markets and employs more than 620 commissioned sales representatives who develop both targeted and saturation advertising programs for customers. The sales organization provides service to both national and local advertisers through its telemarketing departments and field sales representatives. Shopper customers vary from individuals with a single item for sale to local neighborhood advertisers to large multi-location advertisers. The core customers continue to be local service businesses and small retailers. The Company is increasingly focusing its marketing efforts on larger national accounts by emphasizing its ability to deliver saturation advertising in defined zones 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.

The Company utilizes proprietary sales and marketing systems to enter customer 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 customer database enabling sales personnel to access customer history by designated variables to facilitate the identification of similar potential customers and to assist with timely follow-up on existing customers.

Shopper Facilities

Harte-Hanks shoppers are produced at owned or leased facilities in the markets they serve. The Company has five production facilities – three in Southern California, one in Northern California and one in its Florida market – and 29 sales offices.

For more information please refer to the subsection entitled "General Facilities" in this report.

Competition

Harte-Hanks shoppers compete primarily with metropolitan daily newspapers, shared mail packages and other local advertising media. Shoppers also compete in varying degrees for advertisers and readers with magazines, radio, broadcast and cable television, directories, internet sites, other shoppers and other communications media that operate in their markets. The Company believes that its production systems and technology, which enable it to publish separate editions in narrowly targeted zones, allow it to compete effectively, particularly in large markets with high media fragmentation.

EMPLOYEES

As of December 31, 2002, Harte-Hanks employed 6,439 full-time employees and 643 part-time employees, as follows: direct marketing – 4,542 full-time and 228 part-time employees; shoppers – 1,878 full-time and 414 part-time employees; and corporate office – 19 full-time employees and 1 part-time employee. None of the work force is represented by labor unions. The Company considers its relations with its employees to be good.

GENERAL FACILITIES

Harte-Hanks' executive offices are located in San Antonio, Texas and occupy approximately 17,000 square feet of leased premises. The Company's 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 2014. The balance of the properties, used in the Company's Southern California shopper operations, Westville, New Jersey direct marketing operations and Hasselt, Belgium direct marketing operations, are owned by the Company.

ITEM 3. LEGAL PROCEEDINGS

The Company from time to time becomes involved in various claims and lawsuits incidental to its businesses. In the opinion of management, after consultation with counsel, any ultimate liability arising out of currently pending claims and lawsuits will not have a material effect on the financial condition or operations of the Company.

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 the fiscal year covered by this report.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Incorporated herein by reference from the Company's Annual Report to Stockholders for the year ended December 31, 2002 at page 32.

Incorporated herein by reference from the information in the Company's definitive proxy statement dated March 28, 2003 for the May 6, 2003 Annual Meeting of Stockholders under the caption "Management – Directors and Executive Officers."

ITEM 6. SELECTED FINANCIAL DATA

Incorporated herein by reference from the Company's Annual Report to Stockholders for the year ended December 31, 2002 at page 31.

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

Incorporated herein by reference from the Company's Annual Report to Stockholders for the year ended December 31, 2002 at pages 12 through 17.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's earnings are affected by changes in short-term interest rates as a result of its revolving credit agreement, which bears interest at floating rates. The Company does not believe that it has significant exposure to market risks associated with changing interest rates as of December 31, 2002. The Company does not enter into derivative financial instruments in its operations.

The Company's earnings are also affected by fluctuations in foreign exchange rates as a result of its operations in foreign countries. Due to the level of operations in foreign countries, the impact of fluctuations in foreign exchange rates is not significant to the Company's overall earnings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following information is set forth in the Company's Annual Report to Stockholders for the year ended December 31, 2002, which is incorporated herein by reference: All Consolidated Financial Statements (pages 18 through 21); all Notes to Consolidated Financial Statements (pages 22 through 30); and the Independent Auditors' Report (page 32). With the exception of the information herein expressly incorporated by reference, the Company's Annual Report to Stockholders for the year ended December 31, 2002 is not deemed filed as part of this Annual Report on Form 10-K.

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

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

Incorporated herein by reference from the information in the Company's definitive proxy statement dated March 28, 2003 for the May 6, 2003 Annual Meeting of Stockholders under the caption "Management – Directors and Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference from the information in the Company's definitive proxy statement dated March 28, 2003 for the May 6, 2003 Annual Meeting of the Stockholders under the caption, "Executive Compensation and Other Information."

See also Item 5 to this report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference from the information in the Company's definitive proxy statement dated March 28, 2003 for the May 6, 2003. Annual Meeting of Stockholders under the caption "Security Ownership of Management and Principal Stockholders."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934). 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 in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) The following consolidated financial statements are incorporated by reference from the Company's Annual Report to Stockholders for the year ended December 31, 2002 attached hereto:

Consolidated Balance Sheets, December 31, 2002 and 2001

Consolidated Statements of Operations, Years ended December 31, 2002, 2001 and 2000

Consolidated Statements of Cash Flows, Years ended December 31, 2002, 2001 and 2000

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Consolidated Statements of Stockholders' Equity and Comprehensive Income, Years ended December 31, 2002, 2001 and 2000

Notes to Consolidated Financial Statements

Independent Auditors' Report

(a) (2) The following accountants' report and financial schedule for years ended December 31, 2002, 2001 and 2000 are submitted herewith:

Exhibit 99(a) – Independent Auditors' Report on 10-K Schedule

Exhibit 99(b) – Schedule II – Valuation and Qualifying Accounts

All other schedules are omitted as the required information is inapplicable

(a) (3) Exhibits

Exhibit No.	Description of Exhibit	Page No.
3(a)	Amended and Restated Certificate of Incorporation (filed as Exhibit 3(a) to the Company's Form 10-K for the year ended December 31, 1993 and incorporated by reference herein).	
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 and incorporated by reference herein).	
3(c)	Amendment dated April 30, 1996 to Amended and Restated Certificate of Incorporation (filed as Exhibit 3(c) to the Company's Form 10-Q for the nine months ended September 30, 1996 and incorporated by reference herein).	
3(d)	Amendment dated May 5, 1998 to Amended and Restated Certificate of Incorporation (filed as Exhibit 3(d) to the Company's Form 10-Q for the six months ended June 30, 1998 and incorporated by reference herein).	
3(e)	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 and incorporated by reference herein).	
10(a)	1984 Stock Option Plan (filed as Exhibit 10(d) to the Company's Form 10-K for the year ended December 31, 1984 and incorporated herein by reference).	
10(b)	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 and incorporated by reference herein).	

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Exhibit No.	Description of Exhibit	Page No.
10(c)	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 and incorporated by reference herein).	
10(d)	Severance Agreement between Harte-Hanks, Inc. and Richard M. Hochhauser dated as of December 15, 2000 (filed as Exhibit 10(d) to the Company's Form 10-K for the year ended December 31, 2000 and incorporated by reference herein).	
10(e)	Form 1 of Severance Agreement between Harte-Hanks, Inc. and certain Executive Officers of the Company, dated as of December 15, 2000 (filed as Exhibit 10(e) to the Company's Form 10-K for the year ended December 31, 2000 and Incorporated by reference herein).	
10(f)	Form 2 of Severance Agreement between Harte-Hanks, Inc and certain Executive Officers of the Company, dated as of December 15, 2000 (files as Exhibit 10(f) to the Company's Form 10-K for the year ended December 31, 2000 and Incorporated by reference herein).	
10(g)	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 and incorporated by reference herein).	
10(h)	Harte-Hanks Communications, Inc. 1996 Incentive Compensation Plan (filed as Exhibit 10(p) to the Company's Form 10-Q for the nine months ended September 30, 1996 and incorporated by reference herein).	
10(i)	Harte-Hanks, Inc. Amended and Restated 1991 Stock Option Plan (filed as Exhibit 10(h) to the Company's Form 10-Q for the six months ended June 30, 2000 and incorporated by reference herein).	
10(j)	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 and incorporated by reference herein).	
10(k)	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 and incorporated by reference herein).	
10(l)	Amendment One to Harte-Hanks, Inc. Amended and Restated Restoration Pension Plan dated December 18, 2000 (filed as Exhibit 10(l) to the Company's Form 10-K for the year ended December 31, 2000 and incorporated by reference herein).	

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10(m)	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 and incorporated by reference herein).	
10(n)	Three-Year Credit Agreement dated as of October 18, 2002 between Harte-Hanks, Inc. and the Lenders named therein for$125 million (filed as Exhibit 10(n) to the Company's form 10-Q for the nine months ended September 30, 2002 and incorporated by reference herein).	
*10(o)	Harte-Hanks 1994 Employee Stock Purchase Plan As Amended	22
*13	Annual Report to Stockholders (only those portions incorporated by reference into the Form 10-K are filed herewith).	28
*21	Subsidiaries of the Company	51
*23	Consent of KPMG LLP	52
*99(c)	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.	53
*99(d)	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.	54

*Filed herewith

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (continued)

15(c) Exhibits – The response to this portion of item 14 is submitted as a separate section of this report on pages 20 to 54.

15(d) Financial Statement Schedule – The response to this portion of Item 14 is submitted as a separate section of this report on page 21.

Part B. Reports on Form 8-K

The Company filed no reports on Form 8-K for the quarter ended December 31, 2002.

The agreements set forth above describe the contents of certain exhibits thereunto which are not included. However, such exhibits will be furnished to the Commission upon request.

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SIGNATURES

Date: March 28, 2003

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

/s/ HOUSTON H. HARTE	/s/ CHRISTOPHER M. HARTE
Houston H. Harte, Vice Chairman	Christopher M. Harte, Director
/s/ LARRY FRANKLIN	/s/ JAMES L. JOHNSON
Larry Franklin, Chairman	James L. Johnson, Director
/s/ RICHARD M. HOCHHAUSER	/s/ DAVID L. COPELAND
Richard M. Hochhauser, President and Chief Executive Officer	David L. Copeland, Director
/s/ DR. PETER T. FLAWN	/s/ WILLIAM K. GAYDEN
Dr. Peter T. Flawn, Director	William K. Gayden, Director

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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/ RICHARD M. HOCHHAUSER

Richard M. Hochhauser
President & Chief Executive Officer

I, Richard M. Hochhauser, President and Chief Executive Officer of Harte-Hanks, Inc. (the "Company") hereby certify that:

1. I have reviewed this annual report on Form 10-K of the Company;
2. Based on my knowledge, this annual report does not contain any untrue statements 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 the annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) designed such disclosure controls and procedures 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 annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) all significant deficiencies in the design or operation of internal controls which would adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weakness.

March 28, 2003	/s/ RICHARD M. HOCHHAUSER
Date	Richard M. Hochhauser President & Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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/ JACQUES D. KERREST

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

I, Jacques D. Kerrest, Senior Vice President, Finance and Chief Financial Officer of Harte-Hanks, Inc. (the "Company") hereby certify that:

1. I have reviewed this annual report on Form 10-K of the Company;
2. Based on my knowledge, this annual report does not contain any untrue statements 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 the annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) designed such disclosure controls and procedures 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 annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) all significant deficiencies in the design or operation of internal controls which would adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weakness.

March 28, 2003	/s/ JACQUES D. KERREST
Date	Jacques D. Kerrest Senior Vice President, Finance and Chief Financial Officer

Exhibit 10(o)

HARTE-HANKS, INC.
1994 EMPLOYEE STOCK PURCHASE PLAN
AS AMENDED

1. PURPOSE AND EFFECT OF PLAN.

The purpose of the 1994 Employee Stock Purchase Plan (the "Stock Purchase Plan" or the "Plan") is to secure for Harte-Hanks, Inc., a Delaware corporation (the "Company"), and its stockholders the benefits of the incentive inherent in the ownership of the Company's capital stock by employees of the Company and its subsidiaries. The Stock Purchase Plan is intended to comply with the provisions of Section 423 of the Internal Revenue Code of 1986, as amended (the Code), and the Plan shall be administered, interpreted, and construed in accordance with such provisions.

2. SHARES RESERVED FOR THE PLAN.

There shall be reserved for issuance to and purchase by employees under the Stock Purchase Plan an aggregate of 6,000,000 shares of Common Stock, $1.00 par value per share, of the Company ("Common Stock"), subject to adjustment as provided in Section 12. Shares subject to the Plan may be shares now or hereafter authored but unissued or shares that were once issued and subsequently reacquired by the Company. If and to the extent that any right to purchase reserved shares shall not be exercised by any employee for any reason or if such right to purchase shall terminate as provided herein, such shares which have not been so purchased hereunder shall again become available for the purposes of the Plan unless the Plan shall have been terminated, but such unpurchased shares shall not be deemed to increase the aggregate number of shares specified above to be reserved for purposes of the Plan (subject to adjustment as provided in Section 12).

3. ADMINISTRATION OF THE PLAN.

The Stock Purchase Plan shall be administered, at the expense of the Company, by a committee appointed by the Board of Directors, which shall be designated as the Employee Stock Purchase Plan Committee (the "Committee"), consisting of not less than three members, who shall serve at the pleasure of the Board of Directors. The Committee shall select one of its members as chairman and shall hold meetings at such times and places as it may determine. The Committee may request advice or assistance or employ such persons as are necessary for proper administration of the Plan. Subject to the express provisions of the Plan, the Committee shall have the discretionary authority to interpret the Plan, to supply omissions or correct errors in the Plan, to prescribe, amend and rescind rules and regulations relating to it, to make equitable adjustments for any mistakes made in the administration of the Plan, and to make all other determinations necessary or advisable in administering the Plan, all of which determinations shall be final and binding upon all persons unless otherwise determined by the Board of Directors. A quorum of the Committee shall consist of a majority of its members and the Committee may act by vote of a majority of its members at a meeting at which a quorum is present or without a meeting by a written consent to their action taken signed by all members of the Committee.

4. ELIGIBLE EMPLOYEES.

All present and future employees of the Company, its present and future domestic subsidiaries and such of its present or future foreign subsidiaries as may be designated from time to time by the Committee, shall be eligible to participate in the Stock Purchase Plan, provided each of such employees:

(a) is not an officer of the Company who is a "highly compensated employee" as defined in Section 414(q) of the Code,

(b) has been employed by the Company and/or any of its subsidiaries (or any predecessor thereof) since the June 30 or December 31 immediately preceding the Enrollment Date in question, as hereinafter defined,

(c) has customary employment of a minimum of 20 hours per week during at least five months of the year, and

(d) does not own, immediately after the right is granted, stock possessing five percent (5%) or more of the total combined voting power or value of all classes of capital stock of the Company or of any subsidiary company.

In determining whether a corporation is a subsidiary, the rules of Section 424(f) of the Code shall be followed and in determining stock ownership under this paragraph, the rules of Section 424(d) of the Code shall apply and stock which the employee may purchase under outstanding options shall be treated as stock owned by the employee. Employees eligible to participate in the Stock Purchase Plan pursuant to the provisions of this Section 4 are hereinafter referred to as "Eligible Employees".

5. ELECTION TO PARTICIPATE.

Each Eligible Employee, at the effective date of the Stock Purchase Plan and at August 1 in each calendar year after the calendar year which includes the effective date, and at February 1, 1998 and each subsequent February 1 (each such August 1 or February 1 being referred to as the Enrollment Date), may participate in the Plan by filing with the Committee prior to such effective date or Enrollment Date, as the case may be, an Enrollment Form authorizing specified regular payroll deductions (in any whole percent from one percent (1%) through ten percent (10%) over the following twelve (12) month period not to exceed, in total amount over such period, ten percent (10%) of his or her base compensation. Base compensation is gross compensation actually paid for the pay period, excluding all bonuses, severance pay, any extraordinary pay, expense allowances/ reimbursements, moving expenses and income from restricted stock or stock option awards. Employees who so elect to participate in the Plan are referred to herein as Participating Employees. Payroll deductions for each Participating Employee shall be made regularly commencing on the Enrollment Date, by the Company and shall be credited to an account which the Company shall establish in the name of each participant (the "Payroll Deduction Account"). A Participating Employee may at any time withdraw the entire balance accumulated in his or her Payroll Deduction Account and thereby cease to be a Participating Employee in the Plan until the following Enrollment Date of the Plan. Such payroll deductions shall continue until the Plan terminates or the Participating Employee elects to cease participating or elects to change his or her contribution percentage. A Participating Employee may at any time (but not more

than once during a six month period) decrease his or her payroll deduction, but not to less than one percent (1%), by filing a new Enrollment Form which shall become effective on the following payroll date, or as soon thereafter as practicable. All funds in Payroll Deduction Accounts may be used by the Company for any corporate purpose. Payroll Deduction Accounts are not credited with interest.

6. LIMITATION OF NUMBER OF SHARES WHICH AN EMPLOYEE MAY PURCHASE.

No right to purchase shares under this Stock Purchase Plan shall permit an employee to purchase stock under all employee stock purchase plans of the Company and its subsidiaries at a rate which exceeds $25,000 of fair market value of such stock (determined at the time the right is granted) for any calendar year in which the right is outstanding.

7. PURCHASE PRICE.

The purchase price for each share of Common Stock shall be eighty-five percent (85%) of the fair market value of such share on the Investment Date, as defined in Section 8.

"Fair market value" shall be determined by the Committee by any fair and reasonable means, including if the Common Stock is listed for trading on a national securities exchange, the mean of the high and low sales prices on such exchange on the date in question, or if the Common Stock shall not have been traded on such exchange on such date, the mean of the high and low sales prices on such exchange on the first day prior thereto on which the Common Stock was traded.

8. METHOD OF PAYMENT.

As of the last business day in October, January, April and July during the life of the Plan (each of such dates being known as an "Investment Date"), each Participating Employee shall have the right to purchase the number of whole shares of Common Stock determined by dividing the amount of the balance in his or her Payroll Deduction Account by the purchase price as determined in Section 7. Each Participating Employee having funds in his or her Payroll Deduction Account on an Investment Date shall be deemed, without any further action, to have purchased with the funds in such account the number of whole shares which such Participating Employee has the right to purchase at the purchase price on that Investment Date. A certificate or certificates representing such shares shall be issued promptly to the Participating Employee. Any amount remaining in a Participating Employee's Payroll Deduction Account after any Investment Date shall be retained in his or her Payroll Deduction Account for use in purchasing shares of Common Stock on subsequent Investment Dates or refunded to the Participating Employee if for any reason he or she ceases to participate in the Plan.

9. REGISTRATION OF CERTIFICATES.

Stock certificates may be registered only in the name of the employee.

10. RIGHTS AS A STOCKHOLDER.

When a Participating Employee's Payroll Deduction Account shall be charged with the amount of the purchase price of stock, he shall immediately thereupon have all of the rights or privileges of a

stockholder of the Company with respect to shares purchased under the Plan, whether or not certificates representing the purchased shares shall have been issued.

11. RIGHTS NOT TRANSFERABLE.

Rights under the Plan are not transferable by a Participating Employee and are exercisable only by the Participating Employee.

12. ADJUSTMENT IN CASE OF CHANGES AFFECTING THE COMPANY'S STOCK.

In the event of a subdivision of outstanding shares of Common Stock or the payment of a stock dividend thereon, the number of shares reserved or authorized to be reserved under this Stock Purchase Plan shall be increased proportionately, and such other adjustment shall be made as may be deemed necessary or equitable by the Board of Directors. In the event of any other change affecting the Common Stock, such adjustment shall be made as may be deemed equitable by the Board of Directors to give proper effect to such event, subject to the limitations of Section 424 of the Code. In the event of a corporate transaction described in Section 424(a) of the Code, the Board of Directors of the Company may, alternatively, approve the assumption of the Plan by a successor corporation that becomes the employer of a significant number of Participating Employees ("Successor Employer"). In such event, any uninvested amounts in the Payroll Deduction Accounts of Participating Employees who become employees of the Successor Employer (or its subsidiary) shall be invested in stock of the Successor Employer in accordance with Section 424(a), and such Participating Employees' most recent Enrollment Forms shall be deemed to continue in effect, subject to the right of any Participating Employee to cease participating at any time. In the event of assumption of the Plan, Participating Employees who do not become employees of the Successor Employer (or one of its subsidiaries) shall be deemed to have terminated employment, solely for purposes of this Plan.

13. RETIREMENT, TERMINATION AND DEATH.

In the event of a Participating Employee's retirement or termination of employment, the amount in his or her Payroll Deduction Account shall be refunded to such Participating Employee or, in the event of his or her death, shall be paid to his or her surviving spouse; or, if there is no surviving spouse, to the person or persons properly designated as his or her beneficiary(ies) under the

Company's group term life insurance program; or, if there is no such beneficiary surviving, the Committee, in its sole discretion, may direct payment to the deceased Participating Employee's estate or to one or more of his or her surviving family members.

14. AMENDMENT OF THE PLAN.

The Board of Directors may at any time, or from time to time, amend the Plan in any respect, except that, without the approval of the holders of a majority of the shares of Common Stock of the Company voting thereon, no amendment shall be made (a) increasing or decreasing the number of shares to be reserved under the Plan (other than as provided in Section 12) or (b) altering the eligibility criteria for participation in the Plan.

15. TERMINATION OF THE PLAN.

The Plan and all rights of employees hereunder shall terminate:

(a) on any Investment Date when Participating Employees become entitled to purchase a number of shares greater than the number of reserved shares remaining available for purchase; or

(b) if the Plan is terminated at any time, at the discretion of the Board of Directors.

In the event that the Plan terminates under circumstances described at (a) above, reserved shares remaining as of the termination date shall be issued to Participating Employees in proportion to the balances in the Payroll Deduction Accounts of such employees. Upon termination of the Plan, all amounts held in the Payroll Deduction Accounts shall, to the extent not used to purchase shares of the Common Stock, be refunded to the Participating Employee entitled thereto.

16. EFFECTIVE DATE OF PLAN.

The Plan shall become effective the latest of (a) August 1, 1994, (b) the date on which stockholders' approval is obtained and (c) the date on which a Registration Statement under the Securities Act of 1933, as amended, covering the shares to be issued under the Plan becomes effective.

17. GOVERNMENTAL AND OTHER REGULATIONS.

The Plan, and the grant and exercise of the rights to purchase shares hereunder, and the Company's obligation to sell and deliver shares upon the exercise of rights to purchase shares, shall be subject to all applicable Federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may, in the opinion of counsel for the Company, be required.

18. INDEMNIFICATION OF COMMITTEE.

Members of the Committee shall be indemnified and entitled to reimbursement of expenses pursuant to the Company's Certificate of Incorporation and bylaws to the same extent as if they were directors of the Company.

19. LISTING OF SHARES AND RELATED MATTERS.

If at any time the Board of Directors or the Committee shall determine, based on opinion of counsel, that the listing, registration or qualification of the shares covered by the Plan upon any national securities exchange or under any state or federal law or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the sale of purchase of shares under the Plan, no shares will be sold, issued or delivered unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained, or otherwise provided for, free of any conditions not acceptable to counsel.

20. THIRD PARTY BENEFICIARIES.

None of the provisions of the Plan shall be for the benefit of or enforceable by any creditor of a Participating Employee or any other third party. A Participating Employee may not create a lien, encumbrance or assignment on any portion of the cash balance accumulated in his or her Payroll Deduction Account or on any shares covered by a right to purchase before a stock certificate for such shares is issued for his or her benefit.

21. GENERAL PROVISIONS.

The Plan shall neither impose any obligation on the Company or on any parent or subsidiary corporation to continue the employment of any Participating Employee, nor in any way limit or restrict the right of the Company or any parent or subsidiary to discharge any Participating Employee or to change his or her position or compensation. For purposes of the Plan, an employment relationship shall be deemed to exist between an individual and a corporation if, at the time of the determination, the individual is an "employee" of such corporation within the meaning of Section 423(a)(2) of the Code and the regulations and rulings interpreting such Section. For purposes of the Plan, the transfer of a Participating Employee from employment with the Company to employment with a parent or subsidiary of the Company, or vice versa, shall not be deemed a termination of employment of the Participating Employee. Subject to the specific terms of the Plan, all Participating Employees granted rights to purchase shares hereunder shall have the same rights and privileges.

22. GOVERNING LAW.

The Plan and rights to purchase shares that may be granted hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Texas without regard to principles of conflicts of laws.

REAL FINANCIAL STRENGTH

Harte-Hanks has real financial strength: we are profitable, with earnings per share in 2002 exceeding those in 2001; we generate significant amounts of free cash flow; we have a debt-free balance sheet.

Total financial integrity and honest, transparent reporting of actual results have long been trademarks of Harte-Hanks. In these times when the failure of some to follow these principles has damaged the public's trust in corporate America, we have redoubled our commitment to apply our financial principles and maintain our financial integrity.

2002 presented extraordinary challenges. The people of Harte-Hanks met these challenges with determination and courage. Throughout the world every day, in our data centers, cubicles, conference rooms, warehouses, executive offices, loading docks, at client sites and on airplanes, we all rolled up our sleeves and faced the day's work with passion and intensity. This is our report of the results.

[GRAPHIC APPEARS HERE]

FINANCIAL CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company's overall performance reflects its commitment to its strategy of remaining a market leader in the targeted media industry, introducing new products and entering new markets, investing in technology and people, and increasing shareholder value. Harte-Hanks 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. Harte-Hanks Direct Marketing improves the return on its clients' marketing investment with a range of services organized around five solution points: Construct and update the database --> Access the data --> Analyze the data --> Apply the knowledge --> Execute the programs. Harte-Hanks Shoppers is North America's largest owner, operator and distributor of shopper publications, with shoppers that are zoned into more than 800 separate editions reaching more than 10 million households in California and Florida each week.

Harte-Hanks has grown internally by adding new customers and products, cross-selling existing products, entering new markets and expanding its international presence. In addition, the Company has used its excess cash flows and borrowings against its credit facilities to fund several acquisitions in the past few years. These acquisitions, as well as several previous acquisitions, have enhanced the Company's growth over the past three years. Harte-Hanks has funded $75.9 million in acquisitions during the period 2000 through 2002. These acquisitions have all been in the Company's Direct Marketing segment, which comprises approximately 63% of the Company's revenues for the year ended December 31, 2002.

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

RESULTS OF OPERATIONS

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," under which goodwill is no longer amortized for book purposes (See Note A of the "Notes to Consolidated Financial Statements," included herein). For the purposes of the Management's Discussion and Analysis section of this report, all prior year numbers have been restated as if SFAS No. 142 had been adopted for the year.

Operating results were as follows:

In thousands	2002	% CHANGE	2001/1/	% CHANGE	2000/1/
Revenue	$ 908,777	-1.0	$ 917,928	-4.5	$ 960,773
Operating expenses	758,489	-0.5	762,075	-5.7	807,759
Operating income	$ 150,288	-3.6	$ 155,853	1.9	$ 153,014

/1/ Results as if SFAS 142 had been adopted for the period. Reported results for the years ended December 31, 2001, and 2000, including goodwill amortization, were operating expenses of $778,298 and $822,552 respectively, and operating income of $139,630 and $138,221 respectively.

Consolidated revenues declined 1.0% to $908.8 million while operating income declined 3.6% to $150.3 million in 2002 compared to 2001. Overall operating expenses decreased 0.5% to $758.5 million. The Company's overall results reflect revenue and operating income declines in its Direct Marketing segment, partially offset by increased revenue and operating income in the Shopper segment.

The Company's overall 2001 results reflect revenue declines in its Direct Marketing segment, partially offset by increased revenues from the Shoppers segment. Overall 2001 operating income results reflect increased operating income from the Shoppers segment, partially offset by operating income declines from its Direct Marketing segment.

DIRECT MARKETING

Direct Marketing operating results were as follows:

In thousands	2002	% CHANGE	2001/1/	% CHANGE	2000/1/
Revenue	$ 573,826	-4.7	$ 601,901	-9.1	$ 662,044
Operating expenses	489,954	-2.9	504,730	-9.8	559,872
Operating income	$ 83,872	-13.7	$ 97,171	-4.9	$ 102,172

/1/ Results as if SFAS 142 had been adopted for the period. Reported results for the years ended December 31, 2001, and 2000, including goodwill amortization, were operating expenses of $516,881 and $570,594 respectively, and operating income of $85,020 and $91,450 respectively.

Direct Marketing revenues decreased $28.1 million, or 4.7%, in 2002 compared to 2001. These results reflect revenue declines in most of the company's largest vertical markets, including financial services, retail and pharmaceutical/healthcare. Revenues from the high-tech/telecom industry sector were flat compared to 2001. The segment's select markets group had increased revenue, primarily from the automotive and energy sectors, that were largely attributable to the November 2001 acquisition of Sales Support Services, Inc. Direct Marketing experienced revenue declines in data sales, data processing, Internet services, consulting services, personalized direct mail and targeted mail businesses partially offset by increased revenues from software sales, logistics operations and agency-type business. Direct Marketing revenues were also affected by the 2001 acquisition noted above.

Operating expenses decreased $14.8 million, or 2.9%, in 2002 compared to 2001. Labor costs decreased $19.0 million due to lower volumes and staff reductions. Production and distribution costs increased $6.7 million, primarily due to higher transportation costs related to higher logistics revenues and higher temporary labor costs. General and administrative expenses decreased $2.8 million due to a decrease in bad debt expense, professional services and business services. Depreciation expense increased $0.3 million due to new capital investments to support future growth and improve efficiencies. Operating expenses were also impacted by the 2001 acquisition noted above.

Direct Marketing revenues decreased $60.1 million, or 9.1% in 2001 compared to 2000. These results reflect declines in almost all of Direct Marketing's vertical markets, including declines in the segment's largest vertical markets: retail, financial services and high-tech/telecom. The overall decline was partially offset by strong growth in revenue from the pharmaceutical/healthcare industries. Direct Marketing experienced revenue declines in data processing, agency, consulting, fulfillment, telesales, brokered customer list business, personalized direct mail, targeted mail and logistics operations, partially offset by increased software revenue and revenue attributable to 2001 and 2000 acquisitions.

Operating expenses decreased $55.1 million, or 9.8%, in 2001 compared to 2000. The overall decrease in operating expenses was primarily due to the Company's efforts to manage its cost structure in a difficult economic environment, as well as reduced

variable expenses resulting from lower revenue levels. Labor costs declined $16.2 million due to lower volumes and staff reductions. Production and distribution costs decreased $28.4 million due primarily to decreased volumes and better pricing obtained from vendors. General and administrative expenses decreased $14.4 million due to decreases in employee expense and professional services. Depreciation expense increased $3.7 million due to new capital investments to support future growth and improve efficiencies. Operating expenses were also impacted by 2001 and 2000 acquisitions.

SHOPPERS

Shopper operating results were as follows:

In thousands	2002	% CHANGE	2001/1/	% CHANGE	2000/1/
Revenue	$ 334,951	6.0	$ 316,027	5.8	$ 298,729
Operating expenses	260,387	4.8	248,557	4.0	238,948
Operating income	$ 74,564	10.5	$ 67,470	12.9	$ 59,781

/1/ Results as if SFAS 142 had been adopted for the period. Reported results for the years ended December 31, 2001, and 2000, including goodwill amortization, were operating expenses of $252,629 and $243,019 respectively, and operating income of $63,398 and $55,710 respectively.

Shopper revenues increased $18.9 million, or 6.0%, in 2002 compared to 2001. Revenue increases were the result of improved sales in established markets as well as geographic expansions into new neighborhoods in California. From a product-line perspective, Shoppers had growth in both run-of-press (ROP, or in-book) advertising, primarily real estate-related advertising, and its distribution products, primarily four-color glossy flyers. These increases were partially offset by declines in employment-related ROP advertising and coupon book revenues.

Shopper operating expenses rose $11.8 million, or 4.8%, in 2002 compared to 2001. Labor costs increased $7.5 million due to higher volumes. Production costs increased $4.5 million due to a $5.0 million increase in postage resulting from higher postage rates and increased circulation and volumes. Partially offsetting these increased postage costs were decreased paper costs due to lower rates for both newsprint and job paper. General and administrative costs were flat, as decreased bad debt expense was offset by higher promotion and facilities expenses.

Shopper revenues increased $17.3 million, or 5.8%, in 2001 compared to 2000. Revenue increases were the result of improved sales in established markets as well as geographic expansions into new neighborhoods in both California and Florida. On a product basis, revenue increased due to growth in distribution products and ROP, primarily core sales and real estate-related advertising. These increases were partially offset by declines in employment-related ROP advertising, print-and-deliver and coupon-book revenues.

Shopper operating expenses rose $9.6 million, or 4.0%, in 2001 compared to 2000. The increase in operating expenses was primarily due to increases in production costs of $5.6 million, including increased postage of $3.5 million due to higher postage rates and increased circulation and volumes. Promotion costs also increased $2.9 million; labor costs increased $2.0 million; and insurance costs were up $1.0 million.

ACQUISITIONS

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

In November 2001, the Company acquired Sales Support Services, Inc. (SSS), a leading business-to-business lead generation, order-processing and fulfillment services company serving the automotive, energy and other industries.

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

INTEREST EXPENSE/INTEREST INCOME

Interest expense decreased $1.9 million in 2002 over 2001 due primarily to lower outstanding debt levels of the Company's revolving credit facilities. The decrease in interest expense in 2002 was also a result of lower rates in 2002 compared to 2001. Interest expense increased $1.4 million in 2001 over 2000, due primarily to higher outstanding debt levels during 2001 of the Company's three-year revolving credit facility, the proceeds of which were used to repurchase the Company's stock and fund the November 2001 acquisition of SSS. Interest relating to the Company's unsecured credit facility obtained for the purpose of constructing a new building in Belgium, and a note payable issued in connection with the Company's June 2000 acquisition of HTM, also contributed to the increase in interest expense during 2001. The increase in interest expense in 2001 attributable to the higher debt levels was partially offset by lower interest rates in 2001 compared to 2000. The Company's debt on December 31, 2002,

and 2001 is described in Note D of the "Notes to Consolidated Financial Statements," included herein.

Interest income decreased $0.2 million in 2002 compared to 2001 due to lower interest rates in 2002 compared to 2001. Interest income decreased $1.6 million in 2001 over 2000 due to lower interest rates and lower average cash balances during the year.

OTHER INCOME AND EXPENSE

Other net expense for 2002 primarily consists of balance-based bank charges and stockholders expenses. During 2001 the Company realized $2.5 million in losses on the sales of investments that were classified as available for sale and $0.9 million in losses on the sales of investments that were accounted for under the cost method. The remaining other net expense for 2001 primarily consists of balance-based bank charges and stockholders expenses.

INCOME TAXES

Income taxes decreased $0.4 million in 2002 and $2.1 million in 2001 due to lower income levels. The effective income tax rates were 38.4%, 38.3%, and 38.9% in 2002, 2001 and 2000, respectively. The effective income tax rate calculated is higher than the federal statutory rate of 35% due to the addition of state taxes.

CAPITAL INVESTMENTS

Net cash used in investing activities for 2002 included $17.4 million for capital expenditures and $3.8 million for acquisition-related payments. The capital expenditures consisted primarily of additional computer capacity, technology, systems, new press equipment and equipment upgrades for the Direct Marketing segment. The Shopper segment's capital expenditures were primarily related to additional computer and other production equipment. The acquisition-related payments, which all relate to prior years' acquisitions, were made in the Direct Marketing segment and are discussed above in the section titled "Acquisitions."

Net cash used in investing activities for 2001 included $28.2 million for acquisitions and $26.4 million for capital expenditures. The acquisition investments, which were made in the Direct Marketing segment, are discussed above in the section titled "Acquisitions." The capital expenditures consisted primarily of additional computer capacity, technology, systems, new press equipment and equipment upgrades for the Direct Marketing segment. The Company also invested in facility expansion in its Direct Marketing segment. The Shopper segment's capital expenditures were primarily related to facility improvements and additional computer and other production equipment.

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note A of the "Notes to Consolidated Financial Statements" includes a summary of the significant accounting policies and methods used in the preparation of the Company's Consolidated Financial Statements.

The following is a discussion of the more significant accounting policies and methods.

REVENUE RECOGNITION

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

As described below, significant management judgments and estimates must sometimes be made and used in connection with the revenue recognized in any accounting period.

For all sales the Company requires either a purchase order, a statement of work signed by the customer, a written contract, or some other form of written authorization from the customer.

Direct Marketing revenue is derived from a variety of services. Revenue from services such as creative and graphics, printing, personalization of communication pieces using laser and inkjet printing, targeted mail, fulfillment, agency services and transportation logistics are recognized as the work is performed. Revenue is typically based on a set price or rate given to the customer.

Revenue from the ongoing production and delivery of data is recognized upon completion and delivery of the work and is typically based on a set price or rate. Revenue from time-based subscriptions is based on a set price and is recognized ratably over the term of the subscription.

Revenue from database build services may be billed based on hourly rates or at a set price. If billed at a set price, the database build revenue is recognized over the contractual period, using the percentage-of-completion method based on individual costs incurred to date compared with total estimated contract costs.

Revenue from market research and analytical services may be billed based on hourly rates or a set price. If billed at a set price, the revenue is recognized over the contractual period, using the percentage-of-completion method based on individual costs incurred to date compared with total estimated contract costs. In other instances, progress toward completion is based on performance milestones specified in the contract where such milestones fairly reflect progress toward contract completion.

Revenue related to e-marketing, lead management, multi-channel customer care, inbound and outbound teleservices and technical support is typically billed based on a set 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 postcontract customer support or "PCS"), the Company allocates revenue to each component of

the arrangement using the residual value method based on the fair value of the undelivered elements. This means the Company defers 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 customers or upon renewal rates quoted in the contracts. The fair value of services, such as training and consulting, is based upon separate sales of these services to other customers.

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, the company recognizes the software and the PCS revenue ratably over the term of the license.

The Company applies 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 its hosted software service transactions.

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.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company maintains its 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 the Company's prior collection experience and is generally related to the accounts receivable balance in various aging categories. The balance is also influenced by specific customers' 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 the Company's Consolidated Statements of Operations. The Company recorded bad debt expense of $1.2 million, $4.4 million and $4.6 million for the years ended December 31, 2002, 2001, and 2000, respectively.

RESERVE FOR WORKERS' COMPENSATION, AUTOMOBILE AND GENERAL LIABILITY

The Company has a $250,000 deductible for automobile and general liability. The Company's deductible for workers' compensation increased from $250,000 to $1.0 million in October 2002. The estimate of loss reserves necessary for claims is based on the Company's estimate of claims incurred as of the end of the year. The Company uses detail loss-run claim reports provided by the insurance administrator and applies actuarial development factors to the open claim loss balance to determine an appropriate reserve balance. The loss-run claim reports show all claims and an estimate of what the claim will cost. This estimate is provided by the insurance administrator based upon its experience dealing with similar types of claims. The Company uses the loss-run claim reports as a basis for its reserve balance. Periodic changes to the reserve are recorded as increases or decreases to insurance expense, which is included in the "Advertising, selling, general and administrative" line of the Company's 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 Statement of Financial Accounting Standards ("SFAS") No. 142. Prior to the adoption of SFAS No. 142 on January 1, 2002, goodwill was being amortized on a straight-line basis over 15 to 40 year periods. Beginning January 1, 2002, goodwill is no longer being amortized, but instead is tested for impairment as discussed below.

The Company assesses the impairment of its goodwill in accordance with SFAS No. 142, by determining the fair value of each of its reporting units and comparing the fair value to the carrying value for each reporting unit. The Company has identified its reporting units as Customer Relationship Management (CRM), Marketing Services 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, the Company 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. The Company has not recorded an impairment loss in any of the three years ended December 31, 2002.

At December 31, 2002, and 2001, the Company's goodwill balance was $436.8 million, net of $82.0 million of accumulated amortization, and $434.5 million, net of $82.0 million of accumulated amortization, respectively. Amortization expense related to goodwill was $16.2 million and $14.8 million for the years ended December 31, 2001, and 2000, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities for 2002 was $141.6 million, down $11.3 million compared to 2001. The decrease in 2002 primarily relates to collections of a lower accounts receivable balance at December 31, 2001, than at December 31, 2000, due to decreased revenues. Net cash outflows from investing activities were $20.7 million for 2002 compared to net cash outflows of $53.4 in 2001. The decrease in 2002 primarily relates to less cash spent on acquisitions and lower capital investments in 2002 than 2001. Net cash outflows from financing activities in 2002 were $126.4 million compared to $92.0 million in 2001. The increase in 2002 primarily relates to higher net repayments of debt and a higher overall amount spent repurchasing stock in 2002 than 2001.

Capital resources are available from, and provided through, the Company's unsecured credit facility. This credit facility, a three-year $125-million variable-rate revolving loan commitment, was put in place on October 18, 2002. All borrowings under this credit agreement are to be repaid by October 17, 2005.

Management believes that its credit facility, together with cash provided by operating activities, will be sufficient to fund operations and anticipated acquisitions and capital expenditures needs for the foreseeable future. As of December 31, 2002, the Company had $110.0 million of unused borrowing capacity under its credit facility.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

From time to time, in both written reports and oral statements by senior management, the Company may express its expectations regarding its future performance. These "forward-looking statements" are inherently uncertain, and investors should realize that events could turn out to be other than what senior management expected. Set forth below are some key factors which could affect the Company's future performance, including its revenues, net income and earnings per share; however, the risks described below are not the only ones the Company faces. Additional risks and uncertainties that are not presently known, or that the Company currently considers immaterial, could also impair the Company's business operations.

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

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

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

Competition--Direct marketing is a rapidly evolving business, subject to periodic technological advancements, high turnover of customer personnel who make buying decisions, and changing customer needs and preferences. Consequently, the Company's Direct Marketing business faces competition in all of its offerings. The Company's Shopper business competes for advertising, as well as for readers, with other print and electronic media. Competition comes from local and regional newspapers, magazines, radio, broadcast and cable television, shopper publications and other communications media that operate in the Company's 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 the Company's current processes and to develop new products and services could result in the loss of the Company's customers to current or future competitors. In addition, failure to gain market acceptance of new products and services could adversely affect the Company's growth.

Qualified Personnel--The Company believes that its future prospects will depend in large part upon its ability to attract, train and retain highly skilled technical, client services and administrative personnel. While dependent on employment levels and general economic conditions, qualified personnel historically have been in great demand from time to time and in the foreseeable future will likely remain a limited resource.

Postal Rates--The Company's shopper publications and direct marketing services depend on the United States Postal Service to deliver products. The Company's Shoppers are delivered by standard mail, and postage is the second largest expense, behind payroll, in the Company's Shopper business. Standard postage rates increased at the beginning of the third quarter of 2002. Overall Shopper postage costs are expected to grow moderately as a result of this increase as well as anticipated increases in circulation and insert volumes. Postal rates also influence the demand for the Company's direct marketing services even though the cost of mailings is borne by the Company's customers and is not directly reflected in the Company's revenues or expenses.

Paper Prices--Paper represents a substantial expense in the Company's Shopper operations. In recent years newsprint prices have fluctuated widely, and such fluctuations can materially affect the results of the Company's operations.

Economic Conditions--Changes in national economic conditions can affect levels of advertising expenditures generally, and such changes can affect each of the Company's businesses. In addition, revenues from the Company's Shopper business are dependent to a large extent on local advertising expenditures in the markets in which they operate. Such expenditures are substantially affected by the strength of the local economies in those markets. Direct Marketing revenues are dependent on national and international economics.

Interest Rates--Interest rate movements in Europe and the United States can affect the amount of interest the Company pays related to its debt and the amount it earns on cash equivalents. The Company's primary interest rate exposure is to interest rate fluctuations in Europe, specifically EUROLIBOR rates due to their impact on interest related to the Company's $125 million credit facility. The Company also has exposure to interest rate fluctuations in the United States, specifically money market, commercial paper and overnight time deposit rates as these affect the Company's earnings on its excess cash.

War--War or the threat of war involving the United States could have a significant impact on the Company's operations. War could substantially affect the levels of advertising expenditures by clients in each of the Company's businesses. In addition, each of the Company's businesses could be affected by operational disruptions and a shortage of supplies and labor related to such a war.

HARTE-HANKS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

In thousands, except per share and share amounts	December 31, 2002	2001
ASSETS		
Current assets		
Cash and cash equivalents	$ 25,026	$ 30,468
Accounts receivable (less allowance for doubtful accounts of $3,025 in 2002 and $5,463 in 2001)	137,679	138,409
Inventory	5,299	5,835
Prepaid expenses	14,070	13,411
Current deferred income tax asset	8,129	8,378
Other current assets	8,409	6,306
Total current assets	198,612	202,807
Property, plant and equipment		
Land	3,335	3,325
Buildings and improvements	32,442	31,045
Software	53,279	45,806
Equipment and furniture	178,684	178,842
	267,740	259,018
Less accumulated depreciation and amortization	(179,741)	(152,558)
	87,999	106,460
Software development and equipment installations in progress	6,155	2,968
Net property, plant and equipment	94,154	109,428
Intangible and other assets		
Goodwill (less accumulated amortization of $81,965 in 2002 and 2001)	436,800	434,458
Other intangible assets (less accumulated amortization of $1,733 in 2002 and $1,133 in 2001)	3,267	3,867
Other assets	3,899	20,489
Total intangible and other assets	443,966	458,814
Total assets	$ 736,732	$ 771,049
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 40,746	$ 42,990
Accrued payroll and related expenses	21,854	21,550
Customer deposits and unearned revenue	41,775	38,617
Income taxes payable	9,338	10,531
Other current liabilities	8,048	8,086
Total current liabilities	121,761	121,774
Long-term debt	16,300	48,312
Other long-term liabilities (including deferred income taxes of $21,602 in 2002 and $29,515 in 2001)	66,138	48,597
Total liabilities	204,199	218,683
Stockholders' equity		
Common stock, $1 par value, authorized 375,000,000 shares Issued 2002: 111,534,630; 2001: 109,352,290 shares	111,535	109,352
Additional paid-in capital	216,149	188,158
Retained earnings	722,231	640,635
Less treasury stock, 2002: 21,329,896; 2001: 16,139,795 shares at cost	(491,793)	(384,486)
Accumulated other comprehensive loss	(25,589)	(1,293)
Total stockholders' equity	532,533	552,366
Total liabilities and stockholders' equity	$ 736,732	$ 771,049

See Notes to Consolidated Financial Statements

HARTE-HANKS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands, except per share amounts	Year Ended December 31, 2002	2001	2000
Revenue	$ 908,777	$ 917,928	$ 960,773
Operating expenses			
Payroll	324,733	335,913	350,058
Production and distribution	324,806	313,639	336,444
Advertising, selling, general and administrative	76,222	79,826	92,330
Depreciation	32,128	32,079	28,494
Goodwill and intangible amortization	600	16,841	15,226
Total operating expenses	758,489	778,298	822,552
Operating income	150,288	139,630	138,221
Other expenses (income)			
Interest expense	1,208	3,076	1,678
Interest income	(274)	(498)	(2,062)
Other, net	2,004	4,614	1,746
	2,938	7,192	1,362
Income before income taxes	147,350	132,438	136,859
Income tax expense	56,605	52,754	54,973
Net income	$ 90,745	$ 79,684	$ 81,886
Basic earnings per common share	$ 0.98	$ 0.84	$ 0.81
Weighted-average common shares outstanding	92,648	94,808	101,276
Diluted earnings per common share	$ 0.96	$ 0.82	$ 0.78
Weighted-average common and common equivalent shares outstanding	94,872	97,174	104,480

A reconciliation of the effects of the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," on net income and basic and diluted earnings per share is as follows:

	2002	2001	2000
Net income	$ 90,745	$ 79,684	$ 81,886
Add back: Goodwill amortization (net of tax effect)		12,016	10,752
Adjusted net income	$ 90,745	$ 91,700	$ 92,638
Basic earnings per common share:			
Net income	$ 0.98	$ 0.84	$ 0.81
Add back: Goodwill amortization (net of tax effect)		0.13	0.10
Adjusted net income	$ 0.98	$ 0.97	$ 0.91
Diluted earnings per common share:			
Net income	$ 0.96	$ 0.82	$ 0.78
Add back: Goodwill amortization (net of tax effect)		0.12	0.11
Adjusted net income	$ 0.96	$ 0.94	$ 0.89

SFAS No. 142 is described in Note A of the Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements

HARTE-HANKS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands	Year Ended December 31, 2002	2001	2000
Cash Flows from Operating Activities			
Net income	$ 90,745	$ 79,684	$ 81,886
Adjustments to reconcile net income			

to net cash provided by operations:			
Depreciation	32,128	32,079	28,494
Goodwill and intangible amortization	600	16,841	15,226
Amortization of option-related compensation	99	206	441
Deferred income taxes	8,878	2,470	5,942
Other, net	741	4,464	424
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures:			
(Increase) decrease in accounts receivable, net	730	47,578	(22,514)
Decrease in inventory	536	425	839
Increase in prepaid expenses and other current assets	(2,762)	(124)	(1,848)
Increase (decrease) in accounts payable	(2,244)	(17,054)	1,451
Increase (decrease) in other accrued expenses and other liabilities	8,884	(12,350)	5,095
Other, net	3,302	(1,278)	(4,511)
Net cash provided by operating activities	141,637	152,941	110,925
Cash Flows from Investing Activities			
Acquisitions	(3,791)	(28,230)	(43,873)
Purchases of property, plant and equipment	(17,358)	(26,445)	(36,465)
Proceeds from the sale of property, plant and equipment	439	492	432
Other investing activities	--	801	391
Net cash used in investing activities	(20,710)	(53,382)	(79,515)
Cash Flows from Financing Activities			
Long-term borrowings	34,000	282,000	58,494
Payments on debt	(66,531)	(292,000)	(5,000)
Issuance of common stock	14,113	9,131	6,506
Issuance of treasury stock	110	75	81
Purchase of treasury stock	(98,912)	(83,664)	(92,706)
Warrants repurchased	--	--	(4,317)
Dividends paid	(9,149)	(7,561)	(6,736)
Net cash used in financing activities	(126,369)	(92,019)	(43,678)
Net increase (decrease) in cash and cash equivalents	(5,442)	7,540	(12,268)
Cash and cash equivalents at beginning of year	30,468	22,928	35,196
Cash and cash equivalents at end of year	$ 25,026	$ 30,468	$ 22,928
Supplemental Cash Flow Information:			
Non-cash investing and financing activities:			
Acquisitions -- debt issued (2000)	$ --	$ --	$ 6,876

See Notes to Consolidated Financial Statements

HARTE-HANKS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

In thousands	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL STOCKHOLDERS' EQUITY
Balance at January 1, 2000	$ 110,445	$ 163,401	$ 493,362	$ (201,906)	$ 12,316	$ 577,618
Common stock issued -- employee benefit plans	294	3,711	--	--	--	4,005
Exercise of stock options for cash and by surrender of shares	492	2,009	--	--	--	2,501
Tax benefit of options exercised	--	1,581	--	--	--	1,581
Dividends paid ($0.067 per share)	--	--	(6,736)	--	--	(6,736)
Treasury stock issued	--	11	--	70	--	81
Treasury stock repurchased	(1,972)	1,972	--	(92,706)	--	(92,706)
Warrants repurchased (net of tax of $1,511)	--	(2,806)	--	--	--	(2,806)
Comprehensive income, net of tax:						
Net income	--	--	81,886	--	--	81,886
Foreign currency translation adjustment	--	--	--	--	(1,208)	(1,208)
Change in unrealized gain (loss) on long-term investments, net of reclassification adjustments (net of tax of $7,115)	--	--	--	--	(13,213)	(13,213)
Total comprehensive income						67,465
Balance at December 31, 2000	109,259	169,879	568,512	(294,542)	(2,105)	551,003
Common stock issued -- employee benefit plans	266	3,186	--	--	--	3,452
Exercise of stock options for cash and by surrender of shares	1,782	6,717	--	(6,350)	--	2,149
Tax benefit of options exercised	--	6,416	--	--	--	6,416
Dividends paid ($0.08 per share)	--	--	(7,561)	--	--	(7,561)
Treasury stock issued	--	5	--	70	--	75
Treasury stock repurchased	(1,955)	1,955	--	(83,664)	--	(83,664)
Comprehensive income, net of tax:						
Net income	--	--	79,684	--	--	79,684
Foreign currency translation adjustment	--	--	--	--	(85)	(85)
Change in unrealized gain (loss) on long-term investments, net of reclassification adjustments (net of tax of $481)	--	--	--	--	897	897
Total comprehensive income						80,496

Balance at December 31, 2001	109,352	188,158	640,635	(384,486)	(1,293)	552,366
Common stock issued -- employee benefit plans	202	3,131	--	--	--	3,333
Exercise of stock options for cash and by surrender of shares	2,282	13,787	--	(8,498)	--	7,571
Tax benefit of options exercised	--	10,765	--	--	--	10,765
Dividends paid ($0.098 per share)	--	--	(9,149)	--	--	(9,149)
Treasury stock issued	--	7	--	103	--	110
Treasury stock repurchased	(301)	301	--	(98,912)	--	(98,912)
Comprehensive income, net of tax:						
Net income	--	--	90,745	--	--	90,745
Adjustment for minimum pension liability (net of tax of $17,121)	--	--	--	--	(26,169)	(26,169)
Foreign currency translation adjustment	--	--	--	--	1,873	1,873
Total comprehensive income						66,449
Balance at December 31, 2002	$ 111,535	$ 216,149	$ 722,231	$ (491,793)	$ (25,589)	$ 532,533

See Notes to Consolidated Financial Statements

HARTE-HANKS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

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

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

CASH EQUIVALENTS

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.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company maintains its 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 the Company's prior collection experience and is generally related to the accounts receivable balance in various aging categories. The balance is also influenced by specific customers' 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 the Company's Consolidated Statements of Operations. The Company recorded bad debt expense of $1.2 million, $4.4 million and $4.6 million for the years ended December 31, 2002, 2001, and 2000, respectively.

INVENTORY

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

PROPERTY, PLANT AND EQUIPMENT

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

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

Software	3 to 10 years

GOODWILL AND OTHER INTANGIBLES

Goodwill is recorded to the extent that the purchase price exceeds the fair value of the assets acquired in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142. Prior to the adoption of SFAS No. 142 on January 1, 2002, goodwill was being amortized on a straight-line basis over 15 to 40 year periods. Beginning January 1, 2002, goodwill is no longer being amortized, but instead is tested for impairment as discussed below.

The Company assesses the impairment of its goodwill in accordance with SFAS No. 142, by determining the fair value of each of its reporting units and comparing the fair value to the carrying value for each reporting unit. The Company has identified its reporting units as Customer Relationship Management (CRM), Marketing Services 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, the Company 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. The Company has not recorded an impairment loss in any of the three years ended December 31, 2002.

At December 31, 2002, and 2001, the Company's goodwill balance was $436.8 million, net of $82.0 million of accumulated amortization, and $434.5 million, net of $82.0 million of accumulated amortization, respectively. Amortization expense related to goodwill was $16.2 million and $14.8 million for the years ended December 31, 2001, and 2000, respectively.

Other intangibles with definite useful lives are recorded on the basis of cost in accordance with SFAS No. 142, and are amortized on a straight-line basis over a period of 5 to 10 years. The Company assesses the recoverability of its other intangibles with definite lives by determining whether the amortization of the intangible balance over its remaining life can be recovered through projected undiscounted future cash flows over the remaining amortization period. If projected undiscounted future cash flows indicate that an unamortized intangible will not be recovered, an impairment loss is recognized based on projected discounted future cash flows. Cash flow projections are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

At December 31, 2002, and 2001, the Company's other intangibles with definite useful lives balance was $3.3 million, net of $1.7 million of accumulated amortization, and $3.9 million, net of $1.1 million of accumulated amortization. Amortization expense related to other intangibles with definite useful lives was $0.6 million, $0.6 million and $0.4 million for the years ended December 31, 2002, 2001, and 2000, respectively. Expected amortization expense is $0.6 million for the years ending December 31, 2003, 2004, and 2005, and $0.4 million for the years ending December 31, 2006 and 2007.

As of December 31, 2002, and 2001, the Company does not have any intangibles with indefinite useful lives other than goodwill.

INCOME TAXES

Income taxes are calculated using the asset and liability method required by SFAS No. 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 No. 109, a statutory change in tax rates will be recognized immediately in deferred taxes and income.

EARNINGS PER SHARE

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

STOCK-BASED COMPENSATION

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

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

In thousands, except per share amounts	Year Ended December 31, 2002	2001	2000
Net income--as reported	$ 90,745	$ 79,684	$ 81,886
Stock-based employee compensation expense, included in reported net income, net of related tax effects	61	124	264
Stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(4,411)	(4,362)	(4,905)
Net income--pro forma	$ 86,395	$ 75,446	$ 77,245
Basic earnings per share--as reported	$ 0.98	$ 0.84	$ 0.81
Basic earnings per share--pro forma	$ 0.93	$ 0.80	$ 0.76
Diluted earnings per share--as reported	$ 0.96	$ 0.82	$ 0.78
Diluted earnings per share--pro forma	$ 0.91	$ 0.78	$ 0.74

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2002, 2001 and 2000:

	Year Ended December 31, 2002	2001	2000
Expected dividend yield	0.5%	0.5%	0.4%
Expected stock price volatility	27.8%	21.0%	23.0%
Risk-free interest rate	5.4%	5.7%	5.9%
Expected life of options	3-10 years	3-10 years	3-10 years

STOCK SPLIT

In May 2002, the Company effected a three-for-two stock split in the form of a 50% stock dividend payable to holders of record on May 20, 2002. All share, per share and common stock information in the Consolidated Financial Statements and the Notes thereto has been restated to retroactively reflect the stock split.

REVENUE RECOGNITION

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

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

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

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

RESERVE FOR WORKERS' COMPENSATION, AUTOMOBILE AND GENERAL LIABILITY

The Company has a $250,000 deductible for automobile and general liability. The Company's deductible for workers' compensation increased from $250,000 to $1.0 million in October 2002. The estimate of loss reserves necessary for claims is based on the Company's estimate of claims incurred as of the end of the year. The Company uses detail loss-run claim reports provided by the insurance administrator and applies actuarial development factors to the open claim loss balance to determine an appropriate reserve balance. The loss-run claim reports show all claims and an estimate of what the claim will cost. This estimate is provided by the insurance administrator based upon its experience dealing with similar types of claims. The Company uses the loss-run claim reports as a basis for its reserve balance. Periodic changes to the reserve are recorded as increases or decreases to insurance expense, which is included in the "Advertising, selling, general and administrative" line of the Company's Consolidated Statement of Operations.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 143, "Accounting for Asset Retirement Obligations," issued in June 2001, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived obligations that result from the acquisition, construction, development and/or normal use of the asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company will adopt SFAS No. 143 as of January 1, 2003. At this time the Company does not believe that the adoption of SFAS No. 143 will have a material impact on its financial statements.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," issued in July 2002, addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 requires that a liability be recognized for those costs only when the liability is incurred and can be measured at fair value. This statement nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," which required liability recognition for an exit cost when a company committed to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company will adopt SFAS No. 146 as of January 1,

2003. At this time the Company does not believe that the adoption of SFAS No. 146 will have a material impact on its financial statements.

In November 2002, the FASB issued Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantee and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements of FIN No. 45 are effective for guarantees issued or modified after December 31, 2002, and adoption of the disclosure requirements are effective for the Company during the first quarter ending after January 31, 2003. The Company does not expect the adoption of FIN No. 45 to have a significant impact on its consolidated financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation prescribed by SFAS No. 123. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for the fiscal years ending after December 15, 2002, and the annual disclosure provisions are included in the notes to these consolidated financial statements. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company does not expect the adoption of SFAS No. 148 to have a significant impact on its consolidated financial position or results of operations.

NOTE B -- ACQUISITIONS

In November 2001, the Company acquired Sales Support Services, Inc. (SSS), a leading business-to-business lead generation, order processing and fulfillment services company serving the automotive, energy and other industries. The total cost of the transaction was approximately $21.9 million, which was paid in cash and with the assumption of SSS's debt. Goodwill recognized in this transaction amounted to approximately $16.4 million and was assigned to the direct marketing segment.

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

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

The total cash outlay in 2002 for acquisitions was $3.8 million. The total cash outlay in 2001 for acquisitions was $28.2 million. In addition, the Company held back $1.0 million of the purchase price related to its November acquisition of SSS pending the final settlement of the acquired company's working capital amount.

The total cash outlay in 2000 for acquisitions was $43.9 million. In addition, the Company incurred $6.9 million in notes payable for its June 2000 acquisition of HTM.

The operating results of the acquired companies have been included in the accompanying Consolidated Financial Statements from the date of acquisition under the purchase method of accounting. The Company has not disclosed proforma amounts including the operating results of prior years' acquisitions, as they are not considered material to the Company as a whole.

NOTE C -- INVESTMENTS

The Company made equity investments totaling $0.7 million and $4.0 million in 2000 and 1999, respectively. These investments were classified as other assets.

All such investments for which fair value was readily determinable were considered to be available-for-sale and were recorded at fair value. The related unrealized gains and losses were reported as a separate component of accumulated other comprehensive income. All other equity investments were recorded at cost.

The Company sold all of these equity investments in 2001 and 2000 and owns no equity investments at December 31, 2002. Proceeds from the sale of long-term investments were $0.8 million and $1.1 million in 2001 and 2000, respectively. Gross realized losses included in 2001 income were $3.4 million, and gross realized gains included in 2000 income were $0.5 million. Gross gains and losses were determined using the average cost method.

NOTE D -- LONG-TERM DEBT

Cash payments for interest were $1.3 million, $3.4 million and $1.3 million for the years ended December 31, 2002, 2001, and 2000, respectively.

In thousands	December 31, 2002	December 31, 2001
Revolving loan commitment, various interest rates based on EUROLIBOR (effective rate of 1.93% at December 31, 2002), due October 17, 2005......................	$ 15,000	$ 45,000
Revolving loan commitment, various interest rates based on EURIBOR (effective rate of 3.20% at December 31,2002), due July 20, 2003.........................	1,300	3,312
Less current maturities................	--	--
	$ 16,300	$ 48,312

CREDIT FACILITIES

On October 18, 2002 the Company obtained a three-year $125 million variable rate unsecured revolving credit facility. This $125 million facility replaced the Company's two $100 million credit facilities which were terminated on October 18, 2002. All borrowings under this $125 million credit agreement are to be repaid by October 17, 2005. Commitment fees on the total credit facility and interest rates for drawn amounts are determined according to a grid based on the Company's total debt-to-earnings ratio. Commitment fees range from .125% to .175%. Interest rates on drawn amounts range from EUROLIBOR plus .5% to EUROLIBOR plus .7%. This credit facility contains both affirmative and negative covenants, and the Company has been in compliance with these covenants since obtaining the credit facility. As of December 31, 2002, the Company had $110 million of unused borrowing capacity under this credit agreement.

On November 29, 1999, the Company obtained an unsecured credit facility in the amount of 2.5 million Euros for the purpose of financing the construction of a new building in Hasselt, Belgium. This facility was increased to 3.7 million Euros on July 18, 2000. All borrowings under the original facility amount of 2.5 million Euros were repaid on December 16, 2002. All borrowings under the increased amount of 1.2 million Euros are to be repaid by July 20, 2003. The Company pays a commitment fee of .1% on the undrawn portion of the commitment. Interest rates on drawn amounts are at EURIBOR plus .15%. As of December 31, 2002, the Company had no unused borrowing capacity under this credit facility. It is the Company's intent to repay this note on July 20, 2003, with borrowings under its three-year revolving credit facility.

NOTE E -- INCOME TAXES

The components of income tax expense (benefit) are as follows:

In thousands	Year Ended December 31, 2002	2001	2000
Current			
Federal............................	$ 41,602	$ 43,010	$ 40,502
State and local....................	6,026	6,776	6,679
Foreign............................	99	498	1,850
Total current..............	$ 47,727	$ 50,284	$ 49,031

Deferred			
Federal	$ 7,087	$ 2,716	$ 5,321
State and local	1,791	(246)	621
Total deferred	$ 8,878	$ 2,470	$ 5,942

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, 2002		2001		2000	
Computed expected income tax expense	$ 51,572	35%	$ 46,353	35%	$ 47,900	35%
Net effect of state income tax	4,922	3%	4,368	3%	4,857	4%
Effect of goodwill amortization	--	0%	1,607	1%	1,633	1%
Change in the beginning of the year balance of the valuation allowance	159	0%	(124)	0%	(112)	0%
Other, net	(48)	0%	550	0%	695	1%
Income tax expense for the period	$ 56,605	38%	$ 52,754	40%	$ 54,973	40%

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

In thousands	Year Ended December 31, 2002	2001	2000
Results of operations	$ 56,605	$ 52,754	$ 54,973
Stockholders' equity	(27,886)	(5,935)	(10,207)
Total	$ 28,719	$ 46,819	$ 44,766

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, 2002	2001
Deferred tax assets:		
Deferred compensation and retirement plans	$ 16,270	$ 1,336
Accrued expenses not deductible until paid	4,204	4,327
Accounts receivable, net	978	1,674
Other, net	190	162
State net operating loss carryforwards	848	759
Capital loss carryforward	492	492
Total gross deferred tax assets	22,982	8,750
Less valuation allowance	(1,277)	(897)
Net deferred tax assets	21,705	7,853
Deferred tax liabilities:		
Property, plant and equipment	(12,134)	(12,878)
Goodwill	(23,404)	(15,474)
State income tax	360	(638)

Total gross deferred tax liabilities	(35,178)	(28,990)
Net deferred tax liabilities	$ (13,473)	$ (21,137)

The valuation allowance for deferred tax assets as of January 1, 2001, was $455,000. The valuation allowance at December 31, 2002, relates to state net operating losses of $784,000 and capital losses of $493,000, which are not expected to be realized. The valuation allowance at December 31, 2001, related to state net operating losses of $405,000 and capital losses of $492,000 that are not expected to be realized.

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

Cash payments for income taxes were $37.8 million, $38.0 million and $47.8 million in 2002, 2001 and 2000, respectively.

NOTE F -- EMPLOYEE BENEFIT PLANS

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

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

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

In thousands	Year Ended December 31, 2002	2001
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ 85,992	$ 85,369
Service cost	581	543
Interest cost	6,662	6,045
Actuarial loss (gain)	13,435	(1,512)
Benefits paid	(4,519)	(4,453)
Benefit obligation at end of year	102,151	85,992
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	79,241	90,356
Actual return on plan assets	(10,062)	(6,662)
Benefits paid	(4,519)	(4,453)
Fair value of plan assets at end of year	64,660	79,241
Funded status	(37,491)	(6,751)
Unrecognized actuarial loss	47,187	17,825
Unrecognized prior service cost	555	620
Net amount recognized	$ 10,251	$ 11,694

The Company's non-qualified pension plan had an accumulated benefit obligation in excess of its assets of $12.2 million at December 31, 2002.

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

	December 31, 2002	2001	2000

WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31			
Discount rate	6.85%	7.40%	7.50%
Expected return on plan assets	9.00%	9.00%	10.00%
Rate of compensation increase	4.00%	4.00%	4.00%

Net pension cost for both plans included the following components:

In Thousands	December 31, 2002	2001	2000
COMPONENTS OF NET PERIODIC BENEFIT COST (INCOME)			
Service cost	$ 581	$ 543	$ 338
Interest cost	6,662	6,045	5,373
Expected return on plan assets	(6,931)	(8,820)	(9,951)
Amortization of prior service cost	65	65	65
Recognized actuarial loss (gain)	1,066	64	(1,575)
Net periodic benefit cost (income)	$ 1,443	$ (2,103)	$ (5,750)

Prior to January 1, 1999, the Company also sponsored several 401(k) plans to provide employees with additional income upon retirement. The Company generally matched a portion of employees' voluntary before-tax contributions. Employees were fully vested in their own contributions and generally vested in the Company's matching contributions upon three years of service. Effective January 1, 1999, changes were made that combined all 401(k) plans and allowed for immediate vesting of enhanced Company matching contributions. Total 401(k) expense recognized by the Company in 2002, 2001 and 2000 was $6.4 million, $6.3 million and $6.2 million, respectively.

The 1994 Employee Stock Purchase Plan provides for a total of 6,000,000 shares to be sold to participating employees at 85% of the fair market value at specified quarterly investment dates. Shares available for sale totaled 3,212,655 at December 31, 2002.

NOTE G -- STOCKHOLDERS' EQUITY

In January 2003, the Company announced an increase in the regular quarterly dividend from 2.5 cents per share to 3.0 cents per share, payable March 14, 2003, to holders of record on March 1, 2003.

In May 2002, the Company effected a three-for-two stock split in the form of a 50% stock dividend payable to holders of record on May 20, 2002. All share, per share and common stock information has been restated to retroactively reflect the stock split.

During 2002 the Company repurchased 5.1 million shares of its common stock for $98.9 million under its stock repurchase program. In addition, the Company received 0.4 million shares of its common stock, with an estimated market value of $8.5 million, in exchange for proceeds related to stock option exercises. As of December 31, 2002, the Company has repurchased 31.6 million shares since the beginning of its stock repurchase program in January 1997. During this period the Company has also received 0.9 million shares in exchange for proceeds related to stock option exercises. Under this program, the Company had authorization to repurchase an additional 2.3 million shares at December 31, 2002. In March 2003, the Company announced an increase of 6.0 million shares in its stock repurchase program.

NOTE H -- STOCK OPTION PLANS

1984 PLAN

In 1984, the Company adopted a Stock Option Plan ("1984 Plan") pursuant to which it issued to officers and key employees options to purchase shares of common stock at prices equal to the market price on the grant date. Market price was determined by the Board of Directors for purposes of granting stock options and making repurchase offers. Options granted under the 1984 Plan became exercisable five years after date of grant. There were no remaining options outstanding under the 1984 Plan at December 31, 2002, or 2001. At December 31, 2000, options to purchase 189,000 shares were outstanding under the 1984 Plan. No additional options will be granted under the 1984 Plan.

1991 PLAN

The Company adopted the 1991 Stock Option Plan ("1991 Plan") pursuant to which it issued to officers and key employees options to purchase up to 16,500,000 shares of common stock. Options have been granted at prices equal to the market price on the grant date ("market price options") and at prices below market price ("performance options"). As of December 31, 2002, 2001, and 2000, market price options to purchase 8,659,127 shares, 9,049,781 shares and 9,895,538 shares, respectively, were outstanding with exercise prices ranging from $2.22 to $21.23 per share at December 31, 2002. Market price options granted prior to January 1998 become exercisable after the fifth anniversary of their date of grant. Beginning January 1998, market price options generally became exercisable in 25% increments on the second, third, fourth and fifth anniversaries of their date of grant. The weighted-average exercise price for outstanding market price options and exercisable market price options at December 31, 2002, was $13.43 and $9.35, respectively. The weighted-average remaining life for outstanding market price options was 6.37 years.

At December 31, 2002, 2001, and 2000, performance options to purchase 359,625 shares, 751,875 shares and 1,074,900 shares, respectively, were outstanding with exercise prices ranging from $0.22 to $1.33 per share at December 31, 2002. Performance options become exercisable in whole or in part after three years, and the extent to which they become exercisable at that time depends upon the extent to which the Company achieves certain goals established at the time the options are granted. That portion of the performance options which does not become exercisable at an earlier date becomes exercisable after the ninth anniversary of the date of grant. Compensation expense of $0.1 million, $0.2 million and $0.4 million was recognized for the performance options for the years ended December 31, 2002, 2001, and 2000, respectively. The weighted-average exercise price for outstanding performance options and exercisable performance options at December 31, 2002, was $0.52 and $0.44, respectively. The weighted-average remaining life for outstanding performance options was 2.95 years. The Company did not grant any performance options during 2002, 2001 or 2000.

The following summarizes all stock option plans activity during 2002, 2001 and 2000:

	NUMBER OF SHARES	WEIGHTED AVERAGE OPTION PRICE
Options outstanding at January 1, 2000	10,325,501	$ 8.02
Granted	1,745,400	14.67
Exercised	(491,988)	4.91
Cancelled	(419,475)	13.47
Options outstanding at December 31, 2000	11,159,438	9.00
Granted	1,231,650	14.81
Exercised	(1,782,432)	4.84
Cancelled	(807,000)	14.19
Options outstanding at December 31, 2001	9,801,656	10.06

Granted	2,054,825	18.88
Exercised	(2,282,461)	6.17
Cancelled	(555,268)	12.24
Options outstanding at December 31, 2002	9,018,752	$ 12.92
Exercisable at December 31, 2002	3,904,482	$ 8.68

The following table summarizes information about stock options outstanding at December 31, 2002:

	Outstanding			Exercisable	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$0.22-$7.50	1,685,005	2.38	$ 3.99	1,607,755	$ 4.10
$8.54-$13.04	1,744,012	4.53	$ 10.33	1,486,591	$ 10.03
$13.38-$14.67	2,120,939	7.44	$ 14.24	328,443	$ 14.07
$14.75-$16.75	1,448,296	7.01	$ 16.16	481,693	$ 16.13
$18.22-$18.61	1,245,000	9.02	$ 18.22	--	$ --
$19.85-$21.23	775,500	9.65	$ 19.94	--	$ --
	9,018,752	6.27	$ 12.92	3,904,482	$ 8.68

The weighted-average fair value of market price options granted during 2002, 2001 and 2000 was $6.75, $5.35 and $6.44, respectively. The Company did not grant any performance options during 2002, 2001 or 2000.

NOTE I -- FAIR VALUE OF FINANCIAL INSTRUMENTS

Because of their maturities and/or variable interest rates, certain financial instruments of the Company have fair values approximating their carrying values. These instruments include revolving credit agreements, accounts receivable, trade payables, and miscellaneous notes receivable and payable.

NOTE J -- COMMITMENTS AND CONTINGENCIES

At December 31, 2002, the Company had outstanding letters of credit in the amount of $8.6 million. These letters of credit exist to support the Company's insurance programs relating to workers' compensation, automobile and general liability, and leases.

NOTE K -- LEASES

The Company leases certain real estate and equipment under various operating leases. Most of the leases contain renewal options for varying periods of time. The total rent expense applicable to operating leases was $29.7 million, $28.5 million and $26.3 million for the years ended December 31, 2002, 2001, and 2000, respectively.

The future minimum rental commitments for all non-cancelable operating leases with terms in excess of one year as of December 31, 2002, are as follows:

In thousands	
2003	$ 24,392
2004	18,623
2005	13,214
2006	13,179
2007	6,871
After 2007	18,987
	$ 95,266

NOTE L -- 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, 2002	2001	2000
BASIC EPS			
Net income	$ 90,745	$ 79,684	$ 81,886
Weighted-average common shares outstanding used in earnings	92,648	94,808	101,276
Earnings per share	$ 0.98	$ 0.84	$ 0.81
DILUTED EPS			
Net income	$ 90,745	$ 79,684	$ 81,886
Shares used in diluted earnings per share computations	94,872	97,174	104,480
Earnings per share	$ 0.96	$ 0.82	$ 0.78
COMPUTATION OF SHARES USED IN EARNINGS PER SHARE COMPUTATIONS			
Average outstanding common shares	92,648	94,808	101,276
Average common equivalent shares--dilutive effect of option shares	2,224	2,366	3,204
Shares used in diluted earnings per share computations	94,872	97,174	104,480

As of December 31, 2002, 2001, and 2000, the Company had approximately 781,000, 546,000 and 1,297,000 antidilutive market price options outstanding, respectively, which have been excluded from the EPS calculations.

NOTE M -- SELECTED QUARTERLY DATA (UNAUDITED)

In thousands, except per share amounts	2002 Quarter Ended DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH 31	2001 Quarter Ended DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH 31
Revenues	$ 239,525	$ 226,466	$ 227,879	$ 214,907	$ 233,024	$ 224,130	$ 228,654	$ 232,120
Operating income	40,190	36,656	39,981	33,461	35,173	36,046	36,559	31,852
Net income	24,199	22,188	24,090	20,268	20,572	19,913	20,836	18,363
Basic earnings per share	$ 0.27	$ 0.24	$ 0.26	$ 0.22	$ 0.22	$ 0.21	$ 0.22	$ 0.19
Diluted earnings per share	$ 0.26	$ 0.24	$ 0.25	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.18

NOTE N -- BUSINESS SEGMENTS

Harte-Hanks is a highly focused targeted media company with operations in two segments--Direct Marketing and Shoppers.

The Company's Direct Marketing segment offers a complete range of specialized, coordinated and integrated direct marketing services from a single source. The

Company utilizes advanced technologies to enable its customers to identify, reach and influence specific consumers or businesses. The Company's direct marketing capabilities also strengthen the relationship between its clients and their customers. The Company constructs and updates business-to-business and business-to-consumer databases, accesses the data through flexible hosting capabilities and analyzes it to help make it relevant, applies the knowledge by putting the data to work via multi-channel programs, and executes those programs through marketing services delivery campaigns. The Company's Direct Marketing customers include many of America's 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 customers also include a growing number of customers in such selected markets as automotive, utilities, consumer packaged goods, hospitality, publishing, business services, energy and government/not-for-profit. The segment's client base is both domestic and international.

The Company's Shoppers segment produces weekly advertising publications primarily delivered free by third-class mail to all households in a particular geographic area. Shoppers offer advertisers a targeted, cost-effective local advertising system, with virtually 100% penetration in their area of distribution. Shoppers are particularly effective in large markets with high media fragmentation in which major metropolitan newspapers generally have low penetration.

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

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

In thousands	Year Ended December 31, 2002	2001	2000
Revenues			
Direct Marketing	$ 573,826	$ 601,901	$ 662,044
Shoppers	334,951	316,027	298,729
Total revenues	$ 908,777	$ 917,928	$ 960,773
Operating income			
Direct Marketing	$ 83,872	$ 85,020	$ 91,450
Shoppers	74,564	63,398	55,710
Corporate Activities	(8,148)	(8,788)	(8,939)
Total operating income	$ 150,288	$ 139,630	$ 138,221
Income before income taxes			
Operating income	$ 150,288	$ 139,630	$ 138,221
Interest expense	(1,208)	(3,076)	(1,678)
Interest income	274	498	2,062
Other, net	(2,004)	(4,614)	(1,746)
Total income before income taxes	$ 147,350	$ 132,438	$ 136,859
Depreciation			
Direct Marketing	$ 27,088	$ 26,769	$ 23,022
Shoppers	5,008	5,235	5,393
Corporate Activities	32	75	79
Total depreciation	$ 32,128	$ 32,079	$ 28,494

Goodwill and intangible amortization			
Direct Marketing	$ 600	$ 12,769	$ 11,156
Shoppers	--	4,072	4,070
Total goodwill and intangible amortization	$ 600	$ 16,841	$ 15,226
Capital expenditures			
Direct Marketing	$ 12,782	$ 22,354	$ 34,030
Shoppers	4,548	4,085	2,408
Corporate Activities	28	6	27
Total capital expenditures	$ 17,358	$ 26,445	$ 36,465
Total assets			
Direct Marketing	$ 518,195	$ 536,270	
Shoppers	180,109	179,748	
Corporate Activities	38,428	55,031	
Total assets	$ 736,732	$ 771,049	

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

In thousands	Year Ended December 31, 2002	2001	2000
Revenues/a/			
United States	$ 870,700	$ 880,642	$ 917,160
Other countries	38,077	37,286	43,613
Total revenues	$ 908,777	$ 917,928	$ 960,773
Long-lived net assets/b/			
United States	$ 86,324	$ 101,785	
Other countries	7,830	7,643	
Total long-lived assets	$ 94,154	$ 109,428	

/a/ Geographic revenues are based on the location of the customer.
/b/ Long-lived assets are based on physical location.

FIVE-YEAR FINANCIAL SUMMARY

In thousands, except per share amounts	2002	2001	2000	1999	1998
Statement of operations data					
Revenues	$ 908,777	$ 917,928	$ 960,773	$ 829,752	$ 748,546
Operating expenses					
Payroll, production and distribution	649,539	649,552	686,502	606,676	553,529
Advertising, selling, general and administrative	76,222	79,826	92,330	70,060	64,082
Depreciation	32,128	32,079	28,494	24,126	21,087
Goodwill and intangible amortization	600	16,841	15,226	10,662	7,890
Total operating expenses	758,489	778,298	822,552	711,524	646,588
Operating income	150,288	139,630	138,221	118,228	101,958
Interest expense, net	934	2,578	(384)	(5,313)	(13,281)
Net income	90,745	79,684	81,886	72,941	68,371/a/
Earnings per common share--diluted	0.96	0.82	0.78	0.67	0.60/a/
Cash dividends per common share	0.10	0.08	0.07	0.05	0.04
Weighted-average common and common equivalent shares outstanding--diluted	94,872	97,174	104,480	108,216	114,086
Adjusted data to exclude amortization of goodwill, net of tax effect/b/					
Net income	90,745	91,700	92,638	80,707	74,964
Earnings per common share--diluted	0.96	0.94	0.89	0.75	0.65
Segment data					
Revenues					
Direct Marketing	$ 573,826	$ 601,901	$ 662,044	$ 559,262	$ 493,898
Shoppers	334,951	316,027	298,729	270,490	254,648

Total revenues	$ 908,777	$ 917,928	$ 960,773	$ 829,752	$ 748,546
Operating income					
Direct Marketing	$ 83,872	$ 85,020	$ 91,450	$ 79,164	$ 69,648
Shoppers	74,564	63,398	55,710	47,015	40,507
General corporate	(8,148)	(8,788)	(8,939)	(7,951)	(8,197)
Total operating income	$ 150,288	$ 139,630	$ 138,221	$ 118,228	$ 101,958
Operating income excluding amortization of goodwill/b/					
Direct Marketing	$ 83,872	$ 97,171	$ 102,172	$ 85,657	$ 73,351
Shoppers	74,564	67,470	59,781	51,084	44,694
General corporate	(8,148)	(8,788)	(8,939)	(7,951)	(8,197)
Total operating income	$ 150,288	$ 155,853	$ 153,014	$ 128,790	$ 109,848
Other data					
Operating cash flow/c/	$ 183,016	$ 188,550	$ 181,941	$ 153,016	$ 130,935
Capital expenditures	17,358	26,445	36,465	28,928	24,443
Balance sheet data (at end of period)					
Property, plant and equipment, net	$ 94,154	$ 109,428	$ 112,065	$ 106,250	$ 92,274
Goodwill and other intangibles, net	440,067	438,325	439,148	409,791	290,831
Total assets	736,732	771,049	807,105	769,427	715,213
Total long term debt	16,300	48,312	65,370	5,000	--
Total stockholders' equity	532,533	552,366	551,003	577,618	577,091

/a/ Includes non-recurring pension gain of $1.3 million, or one cent per share, net of $0.8 million income tax expense. Excluding this gain, earnings were $0.59 per share.

/b/ Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," which established new accounting and reporting requirements for goodwill and other intangible assets and eliminated the amortization of goodwill. See Note A for further discussion of SFAS No. 142.

/c/ Operating cash flow is defined as operating income plus depreciation and goodwill and intangible amortization. Operating cash flow is not intended to represent cash flow or any other measure of performance in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Harte-Hanks, Inc. and subsidiaries as of December 31, 2002, and 2001, and the related consolidated statements of operations, cash flows, and stockholders' equity and comprehensive income for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harte-Hanks, Inc. and subsidiaries as of December 31, 2002, and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the Consolidated Financial Statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" as of January 1, 2002.

KPMG LLP

San Antonio, Texas

January 29, 2003

CORPORATE INFORMATION

COMMON STOCK

The Company's common stock is listed on the New York Stock Exchange (symbol: HHS). The quarterly stock price ranges for 2002 and 2001 were as follows:

	2002		2001	
	HIGH	LOW	HIGH	LOW
First quarter.........	21.13	17.64	16.06	14.19
Second quarter........	22.68	19.29	17.25	14.24
Third quarter.........	21.43	16.05	16.60	13.67
Fourth quarter........	20.38	17.45	19.28	13.63

In the first quarter of 2002, dividends were paid at the rate of 2.3 cents per share. In the second, third and fourth quarters of 2002, quarterly dividends were paid at the rate of 2.5 cents per share. In 2001, quarterly dividends were paid at the rate of 2.0 cents per share.

There are approximately 2,800 holders of record.

TRANSFER AGENT AND REGISTRAR
EquiServe Trust Company, N.A.
PO Box 43010
Providence, RI 02940-3010
(781) 575-3400
www.equiserve.com

ANNUAL MEETING OF STOCKHOLDERS
The annual meeting of stockholders will be held at 10:00 a.m. on May 6, 2003, at 200 Concord Plaza Drive, First Floor, San Antonio, Texas.

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

Dean Blythe, Secretary
Harte-Hanks, Inc.
P.O. Box 269
San Antonio, Texas 78291-0269

DIRECTORS

DAVID L. COPELAND
President, SIPCO, Inc.

DR. PETER T. FLAWN
President Emeritus, the
University of Texas at Austin
Chairman, Audit Committee

LARRY FRANKLIN
Chairman

WILLIAM K. GAYDEN
Chairman and Chief Executive Officer,
Merit Energy Company

CHRISTOPHER M. HARTE
Private Investor

HOUSTON H. HARTE

Vice Chairman

RICHARD HOCHHAUSER
President and Chief Executive Officer

JAMES L. JOHNSON
Chairman Emeritus, GTE Corporation
Chairman, Compensation Committee

OFFICERS

RICHARD HOCHHAUSER
President and Chief Executive Officer

CRAIG COMBEST
Senior Vice President, Direct Marketing

CHARLES DALL'ACQUA
Senior Vice President, Direct Marketing

PETER GORMAN
Senior Vice President, Shoppers

JACQUES KERREST
Senior Vice President, Finance,
and Chief Financial Officer

GARY SKIDMORE
Senior Vice President, Direct Marketing

DEAN BLYTHE
Vice President, Legal, and Secretary

KATHY CALTA
Vice President, Direct Marketing

BILL CARMAN
Vice President, Shoppers

LOREN DALTON
Vice President, Shoppers

JAMES DAVIS
Vice President, Direct Marketing

BILL GOLDBERG
Vice President, Direct Marketing

CARLOS GUZMAN
Vice President, Shoppers

SPENCER JOYNER, JR.
Vice President, Direct Marketing

FEDERICO ORTIZ
Vice President, Tax

MICHAEL PAULSIN
Vice President, Shoppers

TANN TUELLER
Vice President, Direct Marketing

JESSICA HUFF
Controller and Chief Accounting Officer

CORPORATE OFFICE - SAN ANTONIO, TEXAS   http://www.harte-hanks.com

DIRECT MARKETING

Austin, Texas
Baltimore, Maryland
Bellmawr, New Jersey
Billerica, Massachusetts
Bloomfield, Connecticut

Cincinnati, Ohio
Clearwater, Florida
Dallas/Grand Prairie, Texas
Deerfield Beach, Florida
Fort Worth, Texas
Forty Fort, Pennsylvania
Fullerton, California
Glen Burnie, Maryland
Jacksonville, Florida
La Jolla, California
Lake Katrine, New York
Lake Mary, Florida
Langhorne, Pennsylvania
Memphis, Tennessee
Monroe Township, New Jersey
New York, New York
Ontario, California
River Edge, New Jersey
San Diego, California
Shawnee, Kansas
Sterling Heights, Michigan
Valencia, California
Vineland, New Jersey
West Bridgewater, Massachusetts
Westville, New Jersey

NATIONAL SALES HEADQUARTERS

Cincinnati, Ohio

INTERNATIONAL OFFICES

Darmstadt, Germany
Dublin, Ireland
Hasselt, Belgium
London, United Kingdom
Madrid, Spain
Melbourne, Australia
Sao Paulo, Brazil
Sevres, France
Uxbridge, United Kingdom

SHOPPERS

THE FLYER

South Florida
http://www.theflyer.com

PENNYSAVER

Northern California

Southern California --
Greater Los Angeles Area

Southern California --
Greater San Diego Area

http://www.pennysaverusa.com

Exhibit 21

SUBSIDIARIES OF HARTE-HANKS, INC.
As of December 31, 2002

Name of Entity	Jurisdiction of Organization	% Owned
The Flyer Publishing Corporation	Florida	100%
Harte-Hanks CRM Services UK Limited	England	100%
Harte-Hanks Data Services LLC	Maryland	100%
Harte-Hanks Data Technologies LLC	Delaware	100%
Harte-Hanks Delaware, Inc.	Delaware	100%
Harte-Hanks Direct, LLC	Delaware	100%/(1)/
Harte-Hanks Direct Marketing/Baltimore, Inc.	Maryland	100%
Harte-Hanks Direct Marketing/Cincinnati, Inc.	Ohio	100%
Harte-Hanks Direct Marketing/Dallas, L.P.	Delaware	100%/(6)/
Harte-Hanks Direct Marketing/Fullerton, Inc.	California	100%
Harte-Hanks Direct Marketing/Jacksonville, LLC	Delaware	100%/(10)/
Harte-Hanks Direct Marketing/Kansas City, LLC	Delaware	100%/(11)/
Harte-Hanks do Brazil Consultoria e Servicos Ltda.	Brazil	100%/(3)/
Harte-Hanks IRG, Inc.	Michigan	100%
Harte-Hanks Limited	England	100%/(3)/
Harte-Hanks Market Intelligence, Inc.	California	100%
Harte-Hanks Market Intelligence Espana LLC	Colorado	100%
Harte-Hanks Market Intelligence Europe B.V.	Netherlands	100%
Harte-Hanks Market Intelligence GmbH	Germany	100%/(4)/
Harte-Hanks Market Intelligence Limited	Ireland	100%/(4)/
Harte-Hanks Market Intelligence Limited	England	100%/(4)/
Harte-Hanks Market Intelligence SAS	France	100%/(4)/
Harte-Hanks Market Research, Inc.	New Jersey	100%
Harte-Hanks Partnership, Ltd.	Texas	100%/(5)/
Harte-Hanks Print, Inc.	New Jersey	100%
Harte-Hanks Pty. Limited	Australia	100%/(3)/
Harte-Hanks Response Management/Austin L.P.	Delaware	100%/(6)/
Harte-Hanks Response Management/Boston, Inc.	Massachusetts	100%
Harte-Hanks Response Management Call Centers, Inc.	Delaware	100%
Harte-Hanks Response Management Europe	Belgium	100%
Harte-Hanks Shoppers, Inc.	California	100%
Harte-Hanks Stock Plan, Inc.	Delaware	100%
Harte-Hanks Teleservices, LLC	Delaware	100%/(2)/
H&R Communications, LLC	Delaware	100%/(2)/
HTS, Inc.	Connecticut	100%
Information for Marketing Limited (shell corporation)	England	100%/(7)/
NSO, Inc.	Ohio	100%
Printing Management Systems, Inc.	Delaware	100%
Sales Support Services, Inc.	New Jersey	100%/(8)/
Sales Support Services of Texas, Inc.	Delaware	100%/(9)/
Southern Comprint Co.	California	100%
Spectral Resources, Inc.	New York	100%

/(1)/ Owned by Harte-Hanks Response Management Call Centers, Inc.
/(2)/ Owned by Harte-Hanks Direct, LLC
/(3)/ Owned by Harte-Hanks Data Technologies LLC
/(4)/ Owned by Harte-Hanks Market Intelligence Europe B.V.
/(5)/ 99.5% Owned by Harte-Hanks Delaware, Inc.
.5% Owned by Harte-Hanks, Inc.
/(6)/ 99% Owned by Harte-Hanks Stock Plan, Inc.
1% Owned by Harte-Hanks Response Management Call Centers, Inc.
/(7)/ Owned by Harte-Hanks Limited
/(8)/ Owned by Harte-Hanks Delaware, Inc.
/(9)/ Owned by Sales Support Services, Inc.
/(10)/ Owned by Harte-Hanks Direct Marketing/Cincinnati, Inc.
/(11)/ Owned by Printing Management Systems, Inc.

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Harte-Hanks, Inc.:

We consent to incorporation by reference in the registration statements (No. 333-63105, No. 33-51723, No. 33-54303, No. 333-03045, No. 333-30995, No. 333-41370 and No. 333-90022) on Form S-8 of Harte-Hanks, Inc. of (i) our report dated January 29, 2003 relating to the consolidated balance sheets of Harte-Hanks, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, cash flows and stockholders' equity and comprehensive income for each of the years in the three-year period ended December 31, 2002, which report appears in the 2002 annual report to stockholders which is incorporated by reference in the December 31, 2002 annual report on Form 10-K of Harte-Hanks, Inc. and (ii) our report dated January 29, 2003, relating to the related financial statement schedule as of and for each of the years in the three-year period ended December 31, 2002, which report appears in the December 31, 2002 annual report on Form 10-K of the Company.

Our report refers to the Company's adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/ KPMG LLP

San Antonio, Texas
March 28, 2003

Exhibit 99(a)

INDEPENDENT AUDITORS' REPORT ON 10-K SCHEDULE

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

Under date of January 29, 2003, we reported on the consolidated balance sheets of Harte-Hanks, Inc. and subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of operations, cash flows and stockholders' equity and comprehensive income for each of the years in the three-year period ended December 31, 2002, as contained in the 2002 annual report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 2002. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as referred to in Item 14(a)(2). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note A to the Consolidated Financial Statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" as of January 1, 2002.

/s/ KPMG LLP

San Antonio, Texas
January 29, 2003

Exhibit 99(b)

Harte-Hanks, Inc. and Subsidiaries

Financial Statement Schedule

Schedule II
Valuation and Qualifying Accounts

(in thousands)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
Allowance for doubtful accounts:				
Year ended December 31, 2002...	$ 5,463	$ 1,233	$ 3,671	$ 3,025
Year ended December 31, 2001...	$ 4,644	$ 4,442	$ 3,623	$ 5,463
Year ended December 31, 2000...	$ 3,751	$ 4,602	$ 3,709	$ 4,644

Exhibit 99(c)

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

I, Richard M. Hochhauser, 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, 2002 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.

March 28, 2002	/s/ Richard M. Hochhauser
Date	Richard M. Hochhauser 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 99(d)

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

I, Jacques D. Kerrest, Senior 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, 2002 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.

March 28, 2002	/s/ Jacques D. Kerrest
Date	Jacques D. Kerrest Senior Vice President, Finance 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.