

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

X 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, 1993

____ 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 COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE 74-1677284
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

200 CONCORD PLAZA DRIVE SUITE 800
SAN ANTONIO, TEXAS 78216
(Address of principal executive offices) (Zip Code)

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock	New York Stock Exchange

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

NONE
(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 X No

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

Aggregate market value of the Company's voting stock held by non-affiliates on March 15, 1994, based on the \$20 3/8 per share closing price for the Company's Common Stock on the New York Stock Exchange on such date: approximately \$164,795,527.

Shares outstanding at March 15, 1994:
Common Stock - 18,158,400 shares

Documents incorporated by reference:

The Company's Annual Report to Stockholders for the year ended December 31, 1993 (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, 1994 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).

2

Harte-Hanks Communications, Inc.
Table of Contents
Form 10-K Report
December 31, 1993

PART I		PAGE
Item 1.	Business	3
Item 2.	Properties	3
Item 3.	Legal Proceedings	17
Item 4.	Submission of Matters to a Vote of Security Holders	17
PART II		
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	17
Item 6.	Selected Financial Data	17
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 8.	Financial Statements and Supplementary Data	17
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	17
PART III		
Item 10.	Directors and Executive Officers of the Registrant	18
Item 11.	Executive Compensation	18
Item 12.	Security Ownership of Certain Beneficial Owners and Management	18
Item 13.	Certain Relationships and Related Transactions	18
PART IV		
Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K.	18
Signatures		23

3

ITEM 1. BUSINESS and ITEM 2. PROPERTIES

INTRODUCTION

Harte-Hanks is a diversified communications company with operations throughout the United States in four principal businesses -- newspapers, shoppers, direct marketing and television. The Company's newspaper, shopper and television businesses operate in local markets, while its direct marketing business operates nationwide. The Company believes that its leadership positions within its markets have resulted from offering high-quality products, utilizing advanced technologies and innovative marketing strategies, and establishing strong relationships with its readers, viewers and advertisers. The Company's strategy is to increase revenues by building upon its existing businesses and by applying its capabilities both across its businesses and to new products and markets, enabling

it to capitalize on trends in the media industry toward the use of more direct, targeted marketing. Consistent with this strategy, the Company is investing in advanced technologies, equipment and personnel, introducing new products and services in existing markets, entering new markets and making selective acquisitions. In 1993, the Company had revenues of \$463.5 million.

Harte-Hanks is the successor to a newspaper business begun in Texas in the early 1920s by Houston Harte and Bernard Hanks. In 1972, the Company went public and was listed on the NYSE. The Company went private in a leveraged buyout initiated by management in 1984. In November 1993, the Company again went public and listed its common stock on the NYSE.

See Note H of Notes to Consolidated Financial Statements for certain financial information by business segment.

HARTE-HANKS NEWSPAPERS

General

Harte-Hanks publishes the only daily newspaper in Abilene, Corpus Christi, San Angelo and Wichita Falls, Texas and Anderson, South Carolina (the "five principal newspapers"). The Company also publishes four daily newspapers and 19 nondaily newspapers in higher-income suburban areas of Boston and Dallas (the "suburban newspapers"). In all of its daily newspaper markets, the Company realizes additional revenue from niche publications and specialized services (such as special interest publications and direct mail programs) aimed at targeted consumer groups. Harte-Hanks' strategy in its newspaper business is to build upon its strong local franchises, to offer complementary products and services and to expand its market areas.

The Company's five principal newspapers have achieved high levels of household penetration. For 1993, daily circulation penetration in the city zones for the five principal newspapers ranged from 50% to 72%, and Sunday circulation penetration in the city zones for the five principal newspapers ranged from 70% to 83%, providing advertisers with broad coverage of the five principal newspapers' local markets. Based on Standard Rate & Data's CIRCULATION '94, the daily editions of the Company's newspapers in Abilene, San Angelo and Wichita Falls ranked among the top 50 in the United States based on household penetration in United States Census Bureau metropolitan

4

statistical areas. In addition, these same newspapers Sunday editions rank in the top 25 in the United States based on household penetration. The Sunday editions of the newspapers in Wichita Falls, San Angelo, Abilene and Corpus Christi rank first, second, fourth and fifth among all Texas newspapers, respectively, based on household penetration. Harte-Hanks' suburban newspapers serve local communities within larger metropolitan areas and concentrate on local news stories and other items of interest to those communities. Harte-Hanks newspapers are recognized for their editorial excellence and community leadership, with each newspaper edited locally to reflect the views and interests of the particular market it serves. In 1993, Harte-Hanks newspapers had revenues of \$131.5 million and accounted for approximately 28% of the Company's revenues.

Five Principal Newspapers

The Company believes that the high penetration levels of its five principal newspapers are important to advertisers in their determination of where to allocate advertising dollars as advertisers increasingly require evidence that their messages are actually reaching consumers. The Company's five principal newspapers, together with their related niche publications, accounted for approximately 70% of revenues of Harte-Hanks' newspapers in 1993.

The following table sets forth certain information with respect to the Company's five principal newspapers for 1993:

PUBLICATION	AVERAGE PAID CIRCULATION (1)		AVERAGE CIRCULATION PENETRATION (2)	
	DAILY	SUNDAY	DAILY	SUNDAY
Corpus Christi Caller-Times (Founded 1877)	67,508	96,032	50%	70%
Abilene Reporter-News (Founded 1881)	42,505	54,163	61%	77%
Anderson Independent-Mail (Founded 1899)	42,532	48,477	72%	82%
Wichita Falls Times Record News (Founded 1907)	39,326	48,066	63%	78%
San Angelo Standard-Times (Founded 1884)	32,446	39,516	66%	83%

- (1) In 1993, approximately 83% of daily circulation was home delivered, with the remaining 17% derived from single copy sales.
- (2) Penetration is average paid circulation in the city zone divided by the number of households in the city zone.

5

The CORPUS CHRISTI CALLER-TIMES is a morning newspaper serving Corpus Christi, Texas and 17 surrounding counties in South Texas. For the years 1989, 1990, 1991 and 1993 the Dallas Press Club named the Caller-Times the best daily newspaper in Texas with circulation under 100,000. Average circulation of the Sunday edition of the Caller-Times increased from 87,475 in 1988 to 96,032 in 1993. Sunday circulation reached an all-time high of 98,815 in 1993. The Corpus Christi metropolitan statistical area had an estimated population of 359,000 as of December 31, 1992. The Corpus Christi economy is based on tourism, military, shipping, oil and gas production, petrochemicals, refining, manufacturing, agriculture, higher education, regional health services and regional retail services. Texas A&M University-Corpus Christi will become a four-year institution with graduate programs in 1994. The Port of Corpus Christi is the nation's sixth largest in terms of shipping tonnage.

The ABILENE REPORTER-NEWS is a morning newspaper serving Abilene, Texas and its surrounding area. The Abilene metropolitan statistical area had an estimated population of 119,700 as of December 31, 1992. Abilene was recognized as one of ten All-America Cities in the United States by the National Civic League in 1990 and is the heart of a 15-county regional trade market located in Central West Texas. The Abilene economy is built around the oil and gas industry, agriculture, light industry, military, regional health services and higher education, including three universities located in Abilene.

The ANDERSON INDEPENDENT-MAIL is a morning newspaper serving Anderson, South Carolina and its surrounding area. It regularly receives editorial and public service awards, particularly for its programs to increase literacy. Average paid circulation of the Sunday edition of the Anderson Independent-Mail increased for the last four years, from 42,729 in 1989 to 48,477 in 1993. Anderson County had an estimated population of 148,300 as of December 31, 1992. Anderson County is the retail and manufacturing center for a 9 county area (which includes Clemson University) covering the northwest corner of South Carolina and the northeast corner of Georgia. Other industries include agriculture, healthcare, recreation and retirement services.

The WICHITA FALLS TIMES RECORD NEWS is a morning newspaper serving Wichita Falls, Texas and 18 surrounding counties in North Texas and Southern Oklahoma. The Wichita Falls metropolitan statistical area had an estimated population of 130,000 as of December 31, 1992. The Wichita Falls economy is diversified and consists of manufacturing, military, agriculture, oil and gas and retail and wholesale trade. Sheppard Air Force Base is a significant factor in the Wichita Falls economy and is currently undergoing a \$200 million facilities expansion.

The SAN ANGELO STANDARD-TIMES is a morning newspaper serving San Angelo, Texas and its surrounding area. The San Angelo metropolitan statistical area had an estimated population of 101,000 as of December 31, 1992. San Angelo has a diversified economic base consisting of petroleum, military, regional health services, agriculture and light industry. Goodfellow Air Force Base in San Angelo is currently undergoing a \$45 million facilities expansion.

Suburban Newspapers

The Company publishes four daily newspapers and 19 nondaily newspapers in higher income suburban communities within metropolitan Boston and Dallas. Harte-Hanks' suburban newspapers concentrate on local news stories and other items of interest to the communities they serve and allow advertisers to target consumers in these communities. The suburban newspapers typically compete with daily newspapers published in the same large metropolitan area and local editions of some daily newspapers. Readers of the suburban newspapers typically subscribe to one or more other newspapers. The Company's nondaily suburban newspapers are published either once or twice a week, and many of them are distributed free of charge. The Company's suburban newspapers, together with their related niche publications, accounted for approximately 30% of Harte-Hanks newspaper revenues in 1993.

The following table sets forth certain information with respect to the Company's suburban newspapers for 1993:

LOCATION	PUBLICATION NAME	TYPE OF PUBLICATION	AVERAGE CIRCULATION
MASSACHUSETTS			
Framingham	The Middlesex News	Daily	38,000
		Sunday	48,000
Waltham	Waltham News Tribune	Daily	10,000
Dedham	Dedham Daily Transcript	Daily	9,000
Other Boston Area Communities	Newton Graphic	Nondaily	28,000
	Needham Chronicle	Nondaily	12,000
	Arlington Advocate	Nondaily	10,000
	Wellesley Townsman	Nondaily	8,000
	Belmont Citizen-Herald	Nondaily	6,000
	Wayland-Weston Town Crier	Nondaily	5,000
	West Roxbury Transcript	Nondaily	5,000
	Winchester Star	Nondaily	5,000
	Sudbury Town Crier	Nondaily	4,000
	Roslindale Parkway Transcript	Nondaily	3,000
	Watertown Sun	Nondaily	3,000
TEXAS			
Dallas Area	Plano Star Courier	Daily	13,000
		Sunday	15,000
	Mesquite News	Nondaily	33,000
	Lewisville Leader	Nondaily	25,000
	Carrollton Chronicle	Nondaily	24,000
	The Colony Leader	Nondaily	8,000
	Farmers Branch Times	Nondaily	8,000
	Coppell Gazette	Nondaily	7,000
	McKinney Messenger	Nondaily	7,000
	Allen American	Nondaily	4,000

Niche Publications and Services

In addition to its primary newspaper products, in all of its markets the Company publishes numerous niche advertising and special interest publications to allow advertisers to target specific consumer groups more effectively or to achieve increased market coverage. The specialized publications include rack products, coupon books, guides covering specialized subjects such as television and real estate,

editions zoned to particular geographic areas, weekly news products and military publications. Utilizing its national direct marketing expertise, the Company has expanded into local direct marketing services by starting direct mail services in each of its five principal newspaper markets and by acquiring THE MONEY CLIP, a direct mail coupon publication featuring local advertisers that is delivered to all households in its market area. Since acquiring THE MONEY CLIP, the Company has added a Wichita Falls edition to the original Abilene and San Angelo editions, and the Company may expand publication of THE MONEY CLIP to other markets. Harte-Hanks newspapers provide commercial printing capabilities to their customers and also have initiated audiotext "voice mail" capability, allowing readers to access prerecorded messages and leave recorded messages by telephone. The CORPUS CHRISTI CALLER-TIMES uses its advertiser-sponsored audiotext system to provide on a 24-hour basis more than 120 categories of updated news and information, all of which are accessible through a single telephone number promoted in the newspaper.

Sales and Marketing

The Company maintains local sales offices in each of its principal newspaper markets and in Boston and Dallas. Each office has commissioned sales representatives dedicated specifically to advertising or circulation sales. The Company uses its research capabilities and twice-a-year customer surveys to communicate with customers, track media competition and assess changes in advertising patterns and needs of key customers. Harte-Hanks has recently initiated several new marketing techniques, including programs whereby an advertiser purchases a package consisting of multiple advertisements for a fixed budget amount. Additionally, the Company offers advertisers a combination of products and delivery methods, including niche publications and direct marketing products, to further increase market coverage or target specific consumer groups.

Facilities

Harte-Hanks newspaper operations are housed in modern facilities that are owned by the Company in its five principal newspaper markets and are owned or leased in its suburban newspaper markets. The Company is installing a nine-unit offset printing press in a newly expanded building in Corpus Christi. The Company expects that this press will be operational in the second quarter of 1994 and will enhance the newspaper's production and color capacity and print quality as well as support growth in that market.

Competition

There are no competing daily newspapers published in the markets where the Company publishes its five principal newspapers. In recent years, the Company's suburban newspapers have faced increasing competition from strengthening daily metropolitan newspapers in Boston and Dallas, including local editions of such newspapers. Each of the Company's newspapers competes in varying degrees for advertisers and readers with newspapers, magazines, radio, broadcast and cable television, shoppers, directories and other communications media that operate in its markets.

SHOPPERS

General

Harte-Hanks is the largest publisher of shoppers in North America based on weekly circulation and revenues, and is the only national media company that focuses on shoppers as a core business. Shoppers are weekly advertising publications delivered free by third-class saturation 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, 1993, the shoppers currently owned by Harte-Hanks reached approximately 6.7 million

households in four markets each week -- Southern California, Northern California, Miami/Ft. Lauderdale and Dallas/Fort Worth. The Company's Southern California shopper, THE ORIGINAL PENNYSAVER, accounted for 64% of these households. In February 1994, the Company sold its smallest shopper in Tucson, Arizona, which reached 297,000 households each week.

Harte-Hanks publishes 536 individual shopper editions each week distributed to zones of approximately 12,500 households each, allowing single location, local advertisers to saturate a single geographic zone and allowing multiple location advertisers to saturate multiple zones. The Company believes that its zoning and marketing capabilities and production technologies have enabled it to increase its share of the advertising expenditures in its markets even in difficult economic conditions, as presently exist in California. The Company's strategy in its shopper business is to increase its share of local advertising in its existing circulation areas, increase circulation through expansion into contiguous areas and make selective acquisitions. In 1993, Harte-Hanks shoppers had revenues of \$174.5 million and accounted for approximately 38% of the Company's revenues.

The combined circulation of the Company's shoppers has grown from approximately 4.1 million households at January 1, 1986 to over 6.7 million households at December 31, 1993. In 1993, 0.9 million households were added, primarily in Southern California, Miami/Ft. Lauderdale and Dallas/Fort Worth, through internal expansion and, to a lesser degree, acquisitions. The Company believes that this expansion will provide increased revenue and operating income as the publications in these areas mature. The Company believes that expansion opportunities of approximately 4 million additional households exist in areas contiguous to current circulation areas.

9

Publications

Harte-Hanks shoppers are published in Southern California, Northern California, Miami/Ft. Lauderdale and Dallas/Fort Worth. The Southern California unit accounted for 67% of shopper revenues in 1993.

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

MARKET	PUBLICATION NAME	DECEMBER 31,	
		1993 CIRCULATION	NUMBER OF ZONES
Southern California	The Original PennySaver	4,279,000	348
Northern California	Potpourri	964,000	72
Miami/Ft. Lauderdale	The Flyer	945,000	72
Dallas/Fort Worth	Shopper's Guide	507,000	44
Total		6,695,000	536

Shopper publications consist of classified and display advertising and are delivered to consumers' homes by third-class saturation mail. The typical shopper publication has 50 pages of classified and display advertising and is 8 1/2 by 10 inches in size. Each edition, or zone, is targeted around a natural neighborhood marketing pattern. Shoppers also serve as a distribution vehicle for a four-color proprietary product, MARQUEE, carrying multiple national and regional advertisers; "print-and-deliver," single sheet inserts designed and printed by the Company; coupon books; and preprinted inserts from major retail chains. Harte-Hanks shopper publications also use audiotext "voice mail" in both pay-per-call and free formats allowing readers to access prerecorded advertising or personal messages, leave recorded messages or participate in retail store surveys targeted around local retail locations, reader opinion surveys and interactive reader contests.

The Company has acquired, developed and applied innovative technology and customized equipment to the publication of its shoppers, which have contributed to efficiency and growth. A proprietary data processing, job tracking and pagination system,

jointly developed by the Company and a software company, is currently being installed in Southern California. The Company anticipates complete installation by mid-1994. This computer controlled system, which fully paginates both graphics and text, will replace manual pagination and simplify production of multiple zoned editions. It also will permit designated types of advertisers to be pulled from the database, thereby allowing production of specialized niche publications, such as automotive, real estate and employment products, which may be mailed or distributed through newsstands. Harte-Hanks has installed high speed automatic inserting equipment that decreases production costs for work previously done largely by hand.

10

Sales and Marketing

The Company maintains local sales offices throughout its geographic markets and employs more than 500 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 its 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.

The Company has installed SAMS (Sales and Marketing System), a proprietary order entry system on a Unix platform in its Southern California sales offices. The Company typically processes 16,000 customer orders each week. SAMS speeds customer order entry and facilitates placement of advertising in multiple zoned editions. The Company is in the process of expanding SAMS so that, in addition to entering advertising information for immediate publication, it will build a relational customer database, allowing sales personnel to access customer history by designated variables, thereby identifying similar potential customers and assisting follow-up with existing customers. The Company also believes the relational customer database presents the opportunity for a new revenue stream through the sale and use of customer lists. The Company anticipates that an expanded version of SAMS will be installed at its Southern California shopper by mid-1994 and in all of its shoppers by the end of 1995.

Facilities

Harte-Hanks shoppers are produced at owned or leased facilities in the markets they serve. The Company has five production facilities, two in Southern California and one in each of its other markets, and 21 sales offices.

Competition

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

DIRECT MARKETING

General

Harte-Hanks operates a nationwide direct marketing business offering a

11

broad range of integrated services utilizing advanced technologies to

enable its customers to identify, target and reach specific consumers or businesses by mail. The Company's strategy is to provide a single source of solutions for its customers' direct marketing objectives. The Company believes that developments in computer 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 customers include many of the nation's largest retailers, banks and insurance companies. Harte-Hanks provides five broad direct marketing services -- marketing services, database, data processing/addressing, transportation and integrated direct marketing. In 1993, Harte-Hanks Direct Marketing had revenues of \$129.6 million, which accounted for approximately 28% of the Company's revenues.

Marketing Services

The Company provides a full range of marketing services, assisting customers in defining objectives, developing direct marketing programs, targeting markets and measuring the effectiveness of their marketing efforts, including measuring consumer satisfaction through the use of a proprietary scannable survey. The Company also distributes marketing materials on behalf of its customers to consumers and businesses who request information in response to a customer's advertising program. The Company believes it is the nation's largest external fulfillment provider to the mutual fund industry, distributing prospectuses and other financial material on behalf of more than 20 mutual fund companies. In addition, the Company provides telemarketing services, including answering toll-free calls generated by a customer's advertising program and, in the process, collecting for its customers valuable data about the consumer.

Database

The Company's database services build sophisticated databases and deliver them to clients on personal computers, networks and workstations. These services provide user friendly applications to allow customers to identify consumers most likely to respond to a particular offer. Databases are built using the Company's proprietary name and address processing software to integrate the client's customer files and other consumer and business files with individual, demographic and lifestyle information. The Company's software then screens the database for the desired characteristics, enabling customers to make informed marketing decisions and to cost-effectively target consumers and businesses likely to buy specific products. The database is updated to reflect changes in customer status and response to a particular offer, thereby increasing its effectiveness for future programs.

Database services are marketed to specific industries or markets with software modifications tailored to each industry or market. Having established the basic technological foundation for providing database services, the Company is able to provide database services to new industries and markets by making appropriate modifications to its existing database technology. The Company currently provides database services to the banking, retail and insurance industries and has expanded into the utilities, mutual fund, automotive and business-to-business markets. The Company also provides

12

database services in Canada and the United Kingdom, primarily in the banking industry, and has expanded into Europe, Asia, Latin America and New Zealand. Database services are provided in part under the Company's trade name, Harte-Hanks Data Technologies.

Data Processing/Addressing

Data processing services include maintaining customer files and outside lists, preparing those lists for mailing, eliminating duplicate addresses and updating mailing lists, to increase on-time deliveries and lower postage expense. Harte-Hanks also identifies and updates changed addresses through a nonexclusive license with the United States Postal Service. The Company provides computerized addressing and labeling of advertising mail pieces, primarily for

large retailers, at six mail production facilities. Data processing/addressing services enable consumers to receive advertising materials within a one- to three-day delivery window selected by the customer.

Transportation

The Company arranges for the transportation of time-sensitive material such as dated advertising inserts and direct mail pieces to postal facilities, newspapers and mailhouses nationwide. The Company uses its proprietary software system -- Transportation Optimization of Postal Savings -- to determine a transportation plan that optimizes each customer's postal costs and improves on-time delivery of advertising material. The transportation unit maintains seven warehouses as staging locations across the nation and has personnel located at five of the Company's mail production facilities. The Company believes that it benefits from the nationwide location of its facilities and its ability to combine printed material destined for similar locations.

Integrated Direct Marketing

In contrast to a typical mass mailing, which involves sending consumers individually addressed but otherwise identical advertising pieces, integrated direct marketing uses laser printing and sophisticated insertion technology to target consumers with personalized mail appealing directly to them. The Company designs and creates personalized communications that may be combined with other printed material from the customer for mailing to consumers and businesses. The integrated direct marketing process begins when a customer accesses a database and selects a consumer file for mailing. A creative concept for that promotion is matched with the targeted consumer. A personalized and individualized message is then produced. The Company's services include printing promotional material and the outside and inside envelopes, inserting the individual pieces into the outside envelope, and binding and mailing. If the consumer responds to the offer through purchases or by other means, the database is updated with the response for later use. A customer may, based upon its needs, use some components or all of the Company's integrated direct marketing services.

Sales and Marketing

Harte-Hanks' national direct marketing sales force is headquartered in Cincinnati, Ohio, with sales offices maintained throughout the United States, and in Toronto and London. The focus of the sales force is to position Harte-Hanks as a single source solution for a customer's target marketing needs. The sales force emphasizes cross-selling the range of direct marketing services. For example, through its database, market research and integrated direct marketing services, the Company can define new markets for its customers and reach those markets through the creation and delivery of personalized printed materials. The sales force is supported by employees in specialized areas such as marketing services, transportation and database. In addition, there are specialized sales forces for literature fulfillment, database and transportation services. The Company generally charges fees each time it provides direct marketing services. For certain database projects it charges a one-time, negotiated fee to build a database, plus an additional fee each time the database is updated.

Facilities

Market research is conducted from a leased facility in River Edge, New Jersey and literature fulfillment from a leased facility in Brockton, Massachusetts. Database services are headquartered in Billerica, Massachusetts. Database services have specialty sales and service offices in California, New Jersey, Toronto and Great Britain. Data processing functions are primarily centralized in the Company's Baltimore facility, with mail production at five additional facilities nationwide. The transportation unit maintains warehouses across the nation and has personnel located at five of the Company's mail production plants. Integrated direct marketing services are performed

at the Company's recently constructed state-of-the-art facility in Cincinnati and its recently acquired facility in Jacksonville, Florida.

Competition

Harte-Hanks' direct marketing business faces competition primarily from other direct mail and database organizations, as well as from print and electronic media and other forms of advertising. Harte-Hanks believes that its database capabilities, combined with its national production capability and its ability to offer a full range of integrated services (i.e., targeting and identification of potential markets, and production and delivery of advertising materials), enable the Company to compete effectively.

TELEVISION

General

The Company owns and operates KENS, a CBS-affiliated VHF television station in San Antonio, Texas, the 36th largest television market in the United States according to Arbitron Ratings Service. San Antonio is the business and retail center for South Texas and has a growing, diversified economy based on tourism, military, health care and international trade. KENS has been the number one-rated station in its market, "sign-on to sign-off,"

14

for 21 consecutive years. In 1993, all five of its local daily and all of its weekend news programs were the top-rated newscasts in their time slots. KENS' 10 p.m. newscast has consistently ranked as the top-rated late newscast among the largest 50 television markets in the United States. KENS has consistently received the highest ratings in 65-75% of the time periods it programs locally. The Company believes that its market dominance results from strong local newscasts and its highly visible community involvement and public affairs projects. In 1993, Harte-Hanks television had revenues of \$27.8 million, which accounted for approximately 6% of the Company's revenues.

According to the May 1993 Arbitron Ratings Index, KENS broadcasts to a market of approximately 626,700 households, defined as the Area of Dominant Influence (the "ADI"). The San Antonio ADI is served by 14 stations, including stations affiliated with the other two national networks, a Fox affiliate, five stations affiliated with various Spanish language networks and low power stations. Cable penetration is approximately 64% in the City of San Antonio. San Antonio is a growing advertising market and is consistently ranked higher in terms of total television advertising dollars spent than its market ranking. Because of its market ranking and ethnic diversity, San Antonio has experienced regional and national advertising growth and frequently enjoys test-market status. Broadcast advertising in San Antonio has also benefited from the closure of one of San Antonio's two daily newspapers in 1992.

Network affiliation can have a significant impact on the revenues of a television station because the popularity of a network's programming can affect the rates at which a station can sell time for local advertising. CBS was the number one-rated network in the 1992-93 primetime season. The KENS network contract with CBS has been renewed as of January 1994 for a successive three-year term. KENS has been affiliated with CBS since the station's inception.

Harte-Hanks' strategy is to maintain its leadership position in order to continue to increase its television revenues and to capitalize on the station's reputation and leadership position by providing additional products and services for advertisers. The Company recently acquired an AM radio station in San Antonio, which began broadcasting as KENS-AM on October 15, 1993. The Company has moved the radio station offices and studio to its KENS television facility. KENS Radio features a news/talk and Texas music format, capitalizing on the strong news reputation and advertising sales staff of KENS-TV. The Company also offers video production and graphics services in its full-service production facility. Video production

services are provided for programming, commercial and industrial video applications. Graphics services provide print advertisers and other Harte-Hanks units with a full range of graphics capabilities such as ad design, ad layout, typesetting and color separation. The Company has recently introduced KENS MARQUEE, which is a direct mail coupon advertising magazine mailed to approximately 460,000 households in the greater San Antonio area. KENS MARQUEE is cross-promoted on KENS-TV and Radio and features the KENS logo and personalities on its cover. The Company also offers satellite uplinking services. In addition, KENS has initiated a joint programming venture with the local cable franchise, in which KENS produces programs for cable viewing and local news inserts into CNN Headline News.

15

Sales and Marketing

Local advertising spots are sold by KENS sales personnel. National advertising spots are sold by Katz Communications, an independent advertising sales agent with offices throughout the United States. Generally, advertising rates for national spot and local advertising are determined by the individual station, which receives all of the revenues (less sales representatives commissions). Rates are influenced both by the demand for advertising time and the popularity of the station's programming. Most advertising during network programs is sold by the network, which pays its affiliated stations negotiated fees for broadcasting such programs. Advertising rates charged by a television station are based primarily on the size of the market and the station's ability to attract audiences as reflected in surveys made by national ratings services. Rates are highest during the most desirable viewing hours. Normally a majority of local affiliate station revenues comes from locally programmed dayparts, particularly local newscasts.

Sales of advertising in KENS MARQUEE and of graphics and production services are handled by a separate sales staff working with KENS' television sales staff. The Company employs a similar policy with respect to KENS-AM.

Facilities

KENS owns a modern 50,000 square foot facility constructed in 1982. The facility includes two video production studios with separate technical control rooms, a graphics facility and a satellite uplink facility. The offices and studio of KENS-AM radio are also located at this facility.

Competition

KENS ranks as the number one television station in its local market, which enhances KENS' ability to attract advertising. KENS competes with other advertising media such as newspapers and magazines, and, within its coverage areas, television and radio stations serving the same or nearby areas. KENS also competes with the local cable television system, which has 64% penetration in the City of San Antonio, according to a report published by Arbitron Ratings in May 1993.

Regulation of Television and Radio

The FCC regulates television and radio stations under the Communications Act of 1934, as amended (the "Communications Act"), which together with FCC rules and policies thereunder governs the issuance, renewal and assignment of licenses; technical operation; and, to a limited extent, program, employment and commercial practices. Television broadcast station licenses are issued for a maximum term of five years and are renewable upon application for additional five-year terms. The KENS-TV broadcast station license was renewed in September 1993 for an additional five-year term expiring August 1, 1998. Radio broadcast station licenses are issued for a maximum term of seven years and are renewable upon application for additional seven-year terms. The license of the AM radio station will expire August 1, 1997. Renewal applications are granted without hearing if the licensee's qualifications are not materially

challenged by either a third party or the FCC and if no competing applications for the same facility are filed. Despite the relatively short term license period, the broadcast industry has been characterized by stability. Harte-Hanks has operated television broadcast stations since 1962, and to date its renewal applications have been granted without hearing. Under the Communications Act, a broadcast license may not be granted to or held by any corporation that has more than one-fifth of its capital stock owned or voted by aliens or their representatives, by foreign governments or their representatives, or by non-U.S. corporations, or that has an alien as an officer or a director. Under the Communications Act, a broadcast license also may not be granted to or held by any corporation that is controlled, directly or indirectly, by any other corporation that has an alien as an officer, more than one-fourth of whose directors are aliens, or more than one-fourth of whose capital stock is owned or voted by aliens or their representatives, by foreign governments or their representatives, or by non-U.S. corporations, if the FCC finds that the public interest will be served by the refusal or revocation of such license. The Communications Act and FCC rules also generally prohibit the common ownership, operation or control of a television broadcast station and a radio broadcast station serving the same local market and of a broadcast station and a daily newspaper serving the same local market. However, the FCC has waived this rule as it applies to the ownership of KENS-TV and the recently acquired radio station. The FCC generally applies its ownership limits to "attributable" interests held by an individual, corporation, partnership or other association.

Employees

As of December 31, 1993, Harte-Hanks employed 5,114 full time employees and 1,036 part time employees, as follows: newspapers -- 1,665 full time and 342 part time employees; shoppers -- 1,653 full time and 458 part time employees; direct marketing -- 1,616 full time and 203 part time employees; television -- 155 full time and 32 part time employees; and corporate office -- 25 full time employees and one part time employee. None of the work force is represented by labor unions. The Company considers its relations with its employees to be good.

Facilities

Harte-Hanks' executive offices are located in San Antonio, Texas and occupy approximately 35,000 square feet in leased premises. The Company's business is conducted in premises containing aggregate space of approximately 2.3 million square feet nationwide. Approximately 1.4 million square feet are held under leases, which expire at dates through 2003. The balance of the properties, which are used primarily in the Company's newspaper, Southern California shopper and television 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, including defamation actions. 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, 1993 at pages 24 and 37.

ITEM 6. SELECTED FINANCIAL DATA

Incorporated herein by reference from the Company's Annual Report to Stockholders for the year ended December 31, 1993 at pages 32 and 33.

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, 1993 at pages 13 through 17.

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, 1993, which is incorporated herein by reference: All Consolidated Financial Statements (pages 18 through 21); all Notes to Consolidated Financial Statements (pages 22 through 31); and the "Independent Auditors' Report" (page 34). With the exception of the information herein expressly incorporated by reference, the Company's Annual Report to Stockholders for the year ended December 31, 1993 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.

18

ITEM 10. MANAGEMENT

Incorporated herein by reference from the information the Company's definitive proxy statement dated March 30, 1994 for the May 6, 1994 Annual Meeting of Stockholders under the caption "Management -- Directors and Executive Officers" on pages 5 and 6.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference from the information the Company's definitive proxy statement dated March 30, 1994 for the May 6, 1994 Annual Meeting of Stockholders under the caption "Executive Compensation and Other Information" on pages 7 through 14.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference from the information the Company's definitive proxy statement dated March 30, 1994 for the May 6, 1994 Annual Meeting of Stockholders under the caption "Security Ownership of Management and Principal Stockholders" on pages 4 and 5.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. 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, 1993 attached hereto:

Consolidated Balance Sheets, December 31, 1993 and 1992

Consolidated Statements of Operations, Years ended December 31, 1993, 1992 and 1991

Consolidated Statements of Cash Flows, Years ended December 31, 1993, 1992 and 1991

Consolidated Statements of Stockholder's Equity, Years

ended December 31, 1993, 1992 and 1991

Notes to Consolidated Financial Statements

Independent Auditors' Report

19

- (a) (2) The following accountants' report and financial schedules for years ending December 31, 1993, 1992 and 1991 are submitted herewith:

Independent Auditors' Report 10-K Schedules

Schedule II - Amounts Receivable From Related Parties and Underwriters, Promoters, and Employees Other Than Related Parties

Schedule V - Property, Plant and Equipment

Schedule VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment

Schedule VIII - Valuation and Qualifying Accounts

Schedule X - Supplementary Income Statement Information

All other schedules are omitted as the required information is inapplicable.

20

- (a) (3) Exhibits (continued).

EXHIBIT NO.	DESCRIPTION OF EXHIBIT	PAGE NO.
2(a)	Certificate of Ownership and Merger (filed as Exhibit 2(a) to the Company's Registration Statement No. 33-69202 and incorporated by reference herein).	
* 3(a)	Amended and Restated Certificate of Incorporation.	30
3(b)	Amended and Restated Bylaws (filed as Exhibit 3(b) to the Company's Registration Statement No. 33-69202 and incorporated by reference herein).	
4(a)	Long term debt instruments are not being filed pursuant to Section (b) (4) (iii) of Item 601 of Regulation S-K. Copies of such instruments will be furnished to the Commission upon request.	
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.	38
10(c)	HHC Holding Inc. 1991 Stock Option Plan (filed as Exhibit 10(l) to the Company's Form 10-K for the year ended December 31, 1991 and incorporated by reference herein).	
10(d)	Amendment to HHC Holding Inc. 1991 Stock Option Plan (filed as Exhibit 10(l) to the Company's Form 10-K for the year ended December 31, 1992 and incorporated by reference herein).	

10(e) Third Amended and Restated Loan Agreement dated May 19, 1993 among the Company, The Toronto-Dominion Bank, NationsBank of Texas, N.A., National Westminster Bank USA, The First National Bank of Boston, Bank of Hawaii, Corestates Bank, N.A., The Bank of Nova Scotia, CIBC Inc., and National Bank of Canada; and Toronto-Dominion (Texas), Inc., as agent (filed as Exhibit 10(1) to the Company's 10-Q for the quarter ended June 30, 1993 and incorporated by reference herein).

21

(a)(3) Exhibits (continued).

EXHIBIT
NO.

DESCRIPTION OF EXHIBIT

PAGE NO.

10(f) Note Purchase Agreement by and between HHC Holding Inc. and The Goldman Sachs Group, L.P. (filed as Exhibit 10(f) to the Company's Registration Statement No. 33-69202 and incorporated by reference herein).

10(g) Severance Agreement between Harte-Hanks Communications, Inc. and Larry Franklin, dated as of July 23, 1993 (filed as Exhibit 10(f) to the Company's Registration Statement No. 33-69202 and incorporated by reference herein).

10(h) Form of Severance Agreement between Harte-Hanks Communications, Inc. and certain Executive Officers of the Company, dated as of July 23, 1993 (filed as Exhibit 10(h) to the Company's Registration Statement No. 33-69202 and incorporated by reference herein).

10(i) Amendment No. 2 to HHC Holding Inc. 1991 Stock Option Plan (filed as Exhibit 10(1) to the Company's Registration Statement No. 33-69202 and incorporated by reference herein).

10(j) Harte-Hanks Communications, Inc. Pension Restoration Plan (filed as Exhibit 10(j) to the Company's Registration Statement No. 33-69202 and incorporated by reference herein).

10(k) First Amendment, dated as of November 3, 1993 to Third Amended and Restated Loan Agreement dated May 19, 1993 among the Company, The Toronto-Dominion Bank, NationsBank of Texas, N.A., National Westminster Bank USA, The First National Bank of Boston, Bank of Hawaii, Corestates Bank, N.A., The Bank of Nova Scotia, CIBC Inc., and National Bank of Canada; and Toronto-Dominion (Texas), Inc., as agent (filed as Exhibit 10(1) to the Company's Form 10-Q for the quarter ended September 30, 1993 and incorporated by reference herein).

22

(a)(3) Exhibits (continued).

EXHIBIT
NO.

DESCRIPTION OF EXHIBIT

PAGE NO.

10(1) Amendment No. 1, dated as of November 10, 1993 to Note Purchase Agreement by and between Harte-Hanks Communications, Inc. and GS Capital Partners, L.P., Stone Street Fund 1992, L.P. and Bridge Street Fund 1992, L.P. (filed as Exhibit 10(1) to the Company's Form 10-Q for the quarter ended September 30, 1993 and incorporated by reference herein).

*10(m)	Harte-Hanks Communications, Inc. Incentive Bonus Plan.	62
*11	Statement Regarding Computation of Net Income (Loss) Per Common Share.	63
*13	Annual Report to Securityholders (only those portions incorporated by reference into the Form 10-K are filed herewith).	64
*21	Subsidiaries of the Company.	91
*23	Consent of KPMG Peat Marwick.	92
24	Power of Attorney (included on the signature page of the Registration Statement on Form S-2 filed with the Commission on September 23, 1993).	

*Filed herewith.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the fourth quarter of 1993.

(c) Exhibits -- The response to this portion of Item 14 is submitted as separate section of this report on pages 30 to 92.

(d) Financial Statement Schedules -- The response to this portion of Item 14 is submitted as a separate section of this report on pages 25 to 29.

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.

23

SIGNATURES

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

HARTE-HANKS COMMUNICATIONS, INC.

By: /s/ LARRY D. FRANKLIN
 Larry D. Franklin
 President & Chief Executive
 Officer

By: /s/ RICHARD L. RITCHIE
 Richard L. Ritchie
 Senior Vice President,
 Finance & Chief Financial and
 Accounting Officer

Date: March 28, 1994

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
 Houston H. Harte, Chairman

/s/ DR. PETER T. FLAWN
 Dr. Peter T. Flawn, Director

/s/ LARRY D. FRANKLIN
 Larry D. Franklin, Director

/s/ CHRISTOPHER M. HARTE
 Christopher M. Harte, Director

/s/ EDWARD H. HARTE
 Edward H. Harte, Director

/s/ JAMES L. JOHNSON
 James L. Johnson, Director

/s/ ANDREW B. SHELTON
 Andrew B. Shelton, Director

INDEPENDENT AUDITORS' REPORT 10-K SCHEDULES

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

Under date of January 28, 1994, we reported on the consolidated balance sheets of Harte-Hanks Communications, Inc. and subsidiaries as of December 31, 1993 and 1992 and the related consolidated statements of operations, cash flows and stockholders' equity for each of the years in the three-year period ended December 31, 1993, as contained in the 1993 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 1993. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related financial statement schedules as listed in Item 14(a)(2). These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

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

KPMG Peat Marwick

San Antonio, Texas
January 28, 1994

Harte-Hanks Communications, Inc. and Subsidiaries

Financial Statement Schedules

Schedule II

Amounts Receivable From Related Parties and Underwriters,
Promoters, and Employees Other Than Related Parties

(in thousands)

NAME OF DEBTOR	BALANCE AT BEGINNING OF YEAR	ADDITIONS	DEDUCTION		BALANCE AT END OF YEAR	
			AMOUNTS COLLECTED	AMOUNTS WRITTEN OFF	CURRENT	NOT CURRENT
EMPLOYEE ADVANCES						
Year ended						
December 31, 1993....	\$114	\$--	\$21	\$--	\$--	\$ 93
Year ended						
December 31, 1992....	\$125	\$--	\$11	\$--	\$--	\$114
Year ended						
December 31, 1991....	\$141	\$ 7	\$23	\$--	\$--	\$125

Harte-Hanks Communications, Inc. and Subsidiaries

Financial Statement Schedules

Schedule V

Property, Plant and Equipment

(in thousands)

CLASSIFICATION	BALANCE AT BEGINNING OF YEAR	ADDITIONS AT COST	OTHER ADDITIONS (3)	RETIREMENTS	BALANCE AT END OF YEAR
Year ended December 31, 1993:					
Land.....	\$ 9,894	\$ --	\$ 877	\$ 92	\$ 10,679
Buildings and improvements...	38,373	3,850	1,550	1,544	42,230
Equipment and furniture.....	119,135	12,924	746	2,071	130,733
Construction in progress.....	2,059	18,258 (1)	--	86	6,888
		(13,343) (2)			
	\$169,461	\$ 21,689	\$3,173	\$3,793	\$190,530
Year ended December 31, 1992:					
Land.....	\$ 9,894	\$ --	\$ --	\$ --	\$ 9,894
Buildings and improvements...	39,358	354	--	1,339	38,373
Equipment and furniture.....	115,602	6,884	--	3,351	119,135

Construction in progress.....	1,157	5,307 (1)	--	--	2,059
	\$166,011	\$ 8,140	\$	\$4,690	\$169,461
Year ended December 31, 1991:					
Land.....	\$ 10,066	\$ --	\$ --	\$ 172	\$ 9,894
Buildings and improvements...	39,828	971	--	1,441	39,358
Equipment and furniture.....	112,737	7,260	--	4,395	115,602
Construction in progress.....	4,935	3,133 (1)	--	--	1,157
	\$167,566	\$ 4,453	\$	\$6,008	\$166,011

- (1) Represents initiation of construction in progress.
(2) Represents the completion of construction in progress.
(3) Represents total cost of property, plant and equipment acquired through purchase of operating units.

27

Harte-Hanks Communications, Inc. and Subsidiaries

Financial Statement Schedules

Schedule VI

Accumulated Depreciation and Amortization of
Property, Plant and Equipment

(in thousands)

CLASSIFICATION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	RETIREMENTS	BALANCE AT END OF YEAR
Year ended December 31, 1993:				
Buildings and improvements...	\$17,445	\$ 1,860	\$1,224	\$18,081
Equipment and furniture.....	73,806	9,646	1,812	81,640
	\$91,251	\$11,506	\$3,036	\$99,721
Year ended December 31, 1992:				
Buildings and improvements...	\$16,088	\$ 2,424	\$1,067	\$17,445
Equipment and furniture.....	66,809	9,760	2,763	73,806
	\$82,897	\$12,184	\$3,830	\$91,251
Year ended December 31, 1991:				
Buildings and improvements...	\$14,060	\$ 2,973	\$ 945	\$16,088
Equipment and furniture.....	60,083	9,996	3,270	66,809
	\$74,143	\$12,969	\$4,215	\$82,897

28

Harte-Hanks Communications, Inc. and Subsidiaries

Financial Statement Schedules

Schedule VIII

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, 1993...	\$2,512	\$4,160	\$4,647	\$2,025
Year ended December 31, 1992...	\$2,620	\$3,649	\$3,757	\$2,512
Year ended December 31, 1991...	\$3,309	\$4,047	\$4,736	\$2,620

29

Harte-Hanks Communications, Inc. and Subsidiaries

Financial Statement Schedules

Schedule X
Supplementary Income Statement Information

(in thousands)

ITEMS CHARGED TO COSTS AND EXPENSES	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Maintenance and repairs.....	\$ 6,224	\$ 5,671	\$ 5,468
Goodwill amortization.....	\$10,176	\$10,788	\$10,785

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
HARTE-HANKS COMMUNICATIONS, INC.

The undersigned, Larry D. Franklin certifies that he is the President and Chief Executive Officer of Harte-Hanks Communications, Inc., a Delaware corporation (the "Corporation"), and further certifies as follows:

1. The name of the Corporation is Harte-Hanks Communications, Inc.

2. The name under which the Corporation was originally incorporated was Harte-Hanks Newspapers, Inc., and the original certificate of incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on October 1, 1970.

This Amended and Restated Certificate of Incorporation was duly adopted by written consent of the holders of not less than a majority of the outstanding stock of the Corporation entitled to vote, and written notice of the Corporation action has been given to the stockholders of the Corporation who have not so consented in writing, all in accordance with the provisions of the Sections 228 and 245 of the Delaware General Corporation Law ("DGCL").

4. The text of the Restated Certificate of Incorporation of the Corporation as amended hereby is restated to read in its entirety, as follows:

FIRST. The name of the Corporation is HARTE-HANKS COMMUNICATIONS, INC.

SECOND. The name of its registered agent and the address of its registered office in the State of Delaware are The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801

THIRD. The purpose of the Corporation is to engage in any lawful activity for which corporations may be organized under the DGCL.

FOURTH. The aggregate number of shares of capital stock that the Company shall have the authority to issue is fifty-one million (51,000,000), of which fifty million (50,000,000) shares shall be Common Stock of the Corporation, par value \$1.00 per share, and one million (1,000,000) shares shall be Preferred Stock, par value \$1.00 per share. Shares of Preferred Stock may be issued from time to time in one or more series, each such series to have such

30

distinctive designation or title as may be fixed by the Board of Directors prior to the issuance of any shares thereof. Each share of any series of Preferred Stock shall be identical with all other shares of such series, except as to the date from which accumulated preferred dividends, if any, shall be cumulative. Each such series shall have such voting powers, if any, and such preferences and relative, participating, optional or other special rights, with such qualifications, limitations or restrictions of such preferences and/or rights, and the benefit of such affirmative or negative covenants as shall be stated in the resolution or resolutions adopted by the Board of Directors providing for the issue of such series of Preferred Stock, including, but without limiting the generality of the foregoing, the following:

(a) The rates and times at which, and the terms and conditions on which, dividends on Preferred Stock or series thereof shall be paid;

(b) The right, if any, of the holders of Preferred Stock or series thereof to convert the same into, or exchange the same for, shares of other classes or series of stock of the Corporation and the terms and conditions of such conversion or exchange;

(c) The redemption price or prices, if any, and the time or times at which, and the terms and condition of which, Preferred Stock or series thereof may be redeemed;

(d) The rights of the holders of Preferred Stock or series thereof, if any, upon the voluntary or involuntary liquidation, merger, consolidation, distribution or winding up of the Corporation;

(e) The terms of the sinking fund or redemption or purchase account, if any, to be provided for the Preferred Stock or series thereof; and

(f) Such other relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, all as may be stated in a resolution or resolutions providing for the issue of such Preferred Stock.

After the requirements with respect to preferential dividends on the Preferred Stock (fixed in accordance with the provisions of this Article FOURTH) shall have been met and after the Corporation shall have complied with all the requirements, if any, with respect to the setting aside of sums as sinking funds or redemption or purchase accounts (fixed in accordance with the provisions of this Article FOURTH), then, and not otherwise, the holders of Common Stock shall be entitled to receive such dividends as may be declared from time to time by the Board of Directors.

31

After distribution in full of the preferential amount (fixed in accordance with the provisions of this Article FOURTH) to be distributed to the holders of Preferred Stock in the event of the voluntary or involuntary liquidation, distribution or sale of assets, dissolution or winding-up, of the Corporation, the holders of the Common Stock shall be entitled to receive ratably all of the remaining assets of the Corporation available for distribution to stockholders.

Except as may otherwise be required by law or provided herein, each holder of Common Stock shall have one vote in respect of each share of stock held by such holder on all matters voted upon by stockholders.

No holder of stock of any class of the Corporation shall be entitled as of right to subscribe for or purchase any shares of stock of any class whether now or hereafter authorized, or any bonds, debentures, or other evidences of indebtedness whether or not convertible into or exchangeable for stock.

FIFTH. (a) CLASSIFIED BOARD OF DIRECTORS. The number of directors of the Corporation shall be as from time to time fixed by, or in the manner provided in, the By-laws of the Corporation. The directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The term of the initial Class I directors shall terminate on the date of the 1994 annual meeting of stockholders; the term of the initial Class II directors shall terminate on the date of the 1995 annual meeting of stockholders; and the term of the initial Class III directors shall terminate on the date of the 1996 annual meeting of stockholders. At each annual meeting of stockholders beginning in 1994, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional directors of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his term expires and until

his successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office. Any vacancy on the Board of Directors, however resulting, may be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy shall hold office for a term that shall coincide with the term of the class to which such director shall have been elected.

32

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Restated Certificate of Incorporation or the resolution or resolutions adopted by the Board of Directors pursuant to Article FOURTH applicable thereto, and such directors so elected shall not be divided into classes pursuant to this Article FIFTH unless expressly provided by such terms.

(b) REMOVAL OF DIRECTORS. Subject to the rights, if any, of the holders of shares of Preferred Stock then outstanding, any or all of the directors of the Corporation may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of a majority of votes represented by the outstanding shares of the Corporation then entitled to vote generally in the election of directors, considered for purposes of this Article FIFTH as one class.

SIXTH. (a) RIGHT TO INDEMNIFICATION. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit, or proceeding whether civil, criminal, administrative, or investigative ("proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation or as its representative in a partnership, joint venture, trust, or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, representative or in any other capacity while serving as a director, officer, or representative, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expenses, liability and loss (including attorneys' fees, judgments, fines, excise taxes under the Employee Retirement Income Security Act or penalties, and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer or representative and shall inure to the benefit of the indemnitee's heirs, executors and administrators; PROVIDED, HOWEVER, that, except as provided in paragraph (b) hereof with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such person seeking indemnity in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof)

33

was authorized by the Board of Directors of the Corporation. Such rights shall be contract rights and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; PROVIDED, HOWEVER, that, if the DGCL requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of such proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director

or officer, to repay all amounts so advanced if it should ultimately be determined by final judicial decision from which there is no further right to appeal that such director or officer is not entitled to be indemnified under this paragraph (a) or otherwise.

(b) RIGHT OF CLAIMANT TO BRING SUIT. If a claim under paragraph (a) is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part in any such suit, or in a suit brought by the Corporation against the claimant to recover an advancement of expenses pursuant to the terms of an undertaking referred to in paragraph (a) hereof, the claimant shall be entitled to be paid also the expense of prosecuting or defending such claim. In any suit brought by the claimant to enforce a right to indemnification hereunder, and in any suit by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover any advanced expenses upon a final adjudication that the claimant has not met the standards of conduct that make it permissible under the DGCL for the Corporation to indemnify the claimant for the amount claimed, but the burden of providing such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant had not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant had not met the applicable standard of conduct.

(c) NON-EXCLUSIVITY OF RIGHTS. The rights conferred on any person by paragraphs (a) and (b) shall not be exclusive of any other right that such person may have or hereafter acquire under

34

any statute, provision of the Amended and Restated Certificate of Incorporation, By-laws, agreement, vote of stockholders or disinterested directors, or otherwise.

(d) INSURANCE. The Corporation may maintain insurance, at its expense, to protect itself and any such director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL.

(e) CONTINUANCE. Any repeal or modification of the foregoing paragraphs of this Article SIXTH by the stockholders of the Corporation shall not adversely affect any right or protection of an officer, director or representative of the Corporation existing at the time of such repeal or modification.

SEVENTH. Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or

of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

EIGHTH. The Bylaws of the Corporation may be adopted, repealed, altered, amended, or rescinded by (a) a majority of the authorized number of directors and, if one or more interested stockholders (as defined in Section 203 of the DGCL) exists, by a majority of the directors who are Continuing Directors or (b) the affirmative vote of the holders of not less than 66 2/3% of the voting power of the Company's capital stock and if such adoption, repeal, alteration, amendment, or rescission is proposed by or on

35

behalf of an interested stockholder or a director affiliated with an interested stockholder, by a majority of the disinterested shares. "Continuing Director" means a director of the corporation who (i) was a member of the Board of the Corporation as of September 20, 1993, or (ii) is a beneficial owner, or affiliate of such beneficial owner, of less than 20% of the Common Stock of the Corporation and who became a director of the Corporation subsequent to September 20, 1993, and whose initial election or initial nomination for election was approved by a majority of the Continuing Directors then on the Board of Directors of the Corporation. The provisions of this Amended and Restated Certificate of Incorporation may be altered, amended or repealed by the affirmative vote of the holders a majority of the issued and outstanding stock having voting power provided, that with respect to the provisions of Articles Fifth, Seventh, Eighth, Tenth and Eleventh, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the issued and outstanding stock having voting power shall be required.

NINTH. The Corporation may in its Bylaws by amendment thereto make any lawful restriction upon the sale or transfer of stock of the Corporation held by its stockholders; and all persons subscribing for stock of the Corporation or purchasing stock, whether from the Corporation itself or from any stockholder, shall take notice of and be bound by such lawful restrictions, and shall be deemed to agree thereto.

TENTH. (a) A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transaction from which the director derived any improper personal benefit. If the DGCL is amended after approval by the stockholders of this article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

(b) Any repeal of modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

ELEVENTH. Any action required or permitted to be taken at any annual or special meeting of stockholders may be taken only upon the vote of the stockholders at an annual or special meeting duly noticed and called, as provided in the By-laws of the Corporation, and may not be taken by a written consent of the stockholders.

36

Special meetings of the stockholders of the Corporation for any

purpose or purposes may be called at any time by the chief executive officer or by a majority of the members of the Board of Directors. Special meetings of the stockholders of the Corporation may not be called by any other person or persons.

IN WITNESS WHEREOF, Harte-Hanks Communications has caused this Amended and Restated Certificate of Incorporation to be signed by its duly authorized officers, this 4th day of October, 1993.

HARTE-HANKS COMMUNICATIONS, INC.

By: /s/ Larry D. Franklin
Larry D. Franklin
President

{SEAL}

ATTEST:

By: /s/ Donald R. Crews
Donald R. Crews
Secretary

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT, dated as of September 11, 1984, among HH Holding Inc., a Delaware corporation (the "Company"), and the other parties listed on the Schedule of Stockholders attached to this Agreement.

1. INTRODUCTION. The Company (a) is a party to the Common Stock Subscription Agreement (the "Common Stock Subscription Agreement"), dated as of the date hereof, among the Company and the other parties (collectively, the "Investor Group") to this Agreement other than Teachers Insurance and Annuity Association of America, a New York corporation ("Teachers") and (b) pursuant to an assignment from HH Acquiring Corp., a Delaware corporation and a wholly-owned subsidiary of the Company ("Acquiring Corp."), has become a party to the Purchase Agreement (the "Purchase Agreement"), dated as of August 15, 1984, between the Company (as assignee of Acquiring Corp.) and Teachers. On the terms and conditions set forth in the Common Stock Subscription Agreement, each member of the Investor Group has agreed, among other things, to purchase from the Company the number of shares of the Company's Class A Common Stock, par value \$1.00 per share (the "Class A Common Stock"), specified opposite the name of such member in the Schedule of Stockholders attached to this Agreement. On the terms and conditions set forth in the Purchase Agreement, Teachers has agreed, among other things, to purchase from the Company 1,500,000 shares of the Company's Class B Common Stock, par value \$1.00 per share (the "Class B Common Stock" and, together with the Class A Common Stock, the "Common Stock") and warrants (the "Warrants") to purchase an additional number of shares of common stock on the terms and conditions set forth in the Warrants. This Registration Rights Agreement shall become effective upon the issuance of Common Stock to the members of the Investor Group and Teachers pursuant to the Common Stock Subscription Agreement and the Purchase Agreement, respectively. Certain capitalized terms used in this Agreement are defined in section 3.7.

38

2. REGISTRATION UNDER SECURITIES ACT, ETC.

2.1. REGISTRATION ON REQUEST. (a) At any time or from time to time after the third anniversary of the issuance of Common Stock pursuant to the Common Stock Subscription Agreement and the Purchase Agreement, upon the written request of one or more Qualified Holders requesting that the Company effect the registration under the Securities Act of all or any part of such Qualified Holders' Registrable Securities and specifying the intended method of disposition thereof, the Company shall promptly give written notice of such requested registration to all registered holders of Registrable Securities, and thereupon the Company shall, as expeditiously as reasonably possible, use its best efforts to effect the registration under the Securities Act of

(i) the Registrable Securities which the Company has been so requested to register by such Qualified Holder or Holders, for disposition in accordance with the intended method of disposition stated in such request,

(ii) all other Registrable Securities the holders of which shall have made a written request to the Company for registration thereof within 30 days after the giving of such written notice by the Company (which request shall specify the intended method of disposition thereof), and

(iii) all shares of Common Stock which the Company may elect to register in connection with the offering of Registrable Securities pursuant to this section 2.1,

all to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities and the additional shares of Common Stock, if any, so to be registered, PROVIDED that, on and prior to the fifth anniversary of the date of this Agreement, the Company shall not be required to

effect any registration of Registrable Securities pursuant to this section 2.1 unless (x) a single holder of Registrable Securities has requested the registration of a number of shares of Registrable Securities held by such holder which is equal to or greater than 10%

39

of the shares of Common Stock at the time outstanding and (y) the aggregate number of shares of Registrable Securities requested to be registered by all holders of Registrable Securities is equal to or greater than 15% of the number of shares of Common Stock at the time outstanding.

(b) REGISTRATION STATEMENT FORM. Registrations under this section 2.1 shall be on such appropriate registration form of the Securities and Exchange Commission as shall be selected by the Company, and be reasonably acceptable to the holders of more than 50% (by number of shares) of the Registrable Securities so to be disposed of, and as shall permit the disposition of such Registrable Securities in accordance with the intended method or methods of disposition specified in their request for such registration. The Company agrees to include in any such registration statement all information which holders of Registrable Securities being registered shall reasonably request.

(c) EXPENSES. The Company will pay all Registration Expenses in connection with (i) each registration requested under this section 2.1 if Teachers shall have requested that such registration include all or any part of the Registrable Securities of Teachers, PROVIDED that the provisions of this clause (i) shall not require the Company to pay Registration Expenses in connection with any such registration after the first three such registrations in connection with which Teachers has so requested the registration of any Registrable Securities of Teachers and in the case of each of such three registrations 90% or more (by number of shares) of such Registrable Securities were so registered, and (ii) three additional registrations requested under this section 2.1 by one or more Qualified Holders other than Teachers at a time when the provisions of clause (i) above do not require the Company to pay Registration Expenses or in connection with which Teachers has not requested the registration of any Registrable Securities. The Registration Expenses in connection with each other registration requested under this section 2.1 shall be allocated among all persons on whose behalf securities of the Company are included in such registration, pro rata among such persons on the basis of the respective amounts of the securities then being registered on their behalf.

40

(d) EFFECTIVE REGISTRATION STATEMENT. A registration requested pursuant to this section 2.1 will not be deemed to have been effected (i) unless it has become effective, PROVIDED that a registration which does not become effective after the Company has filed a registration statement with respect thereto solely by reason of the refusal to proceed of the holders of Registrable Securities who initially requested registration of Registrable Securities shall be deemed to have been effected by the Company at the request of such holders, unless such holders shall have elected to pay all Registration Expenses in connection with such registration, or (ii) if, after it has become effective, such registration is interfered with by any stop order, injunction or other order or requirement of the Securities and Exchange Commission or other governmental agency or of any court.

(e) PRIORITY IN REQUESTED REGISTRATIONS. If a requested registration pursuant to this section 2.1 involves an underwritten offering, and the managing underwriter shall advise the Company in writing (with a copy to each holder of Registrable Securities requesting registration) that, in its opinion, the number of securities requested to be included in such registration (including securities of the Company which are not Registrable Securities) exceeds the number which can be sold in such offering, the Company will include in such registration to the extent of the number which the Company is so advised can be sold in such offering (i) first,

Registrable Securities requested to be included in such registration by the holder or holders of Registrable Securities, pro rata among such holders on the basis of the number of Registrable Securities requested to be included by such holders, and (ii) second, securities the Company proposes to sell and other securities of the Company included in such registration by the holders thereof.

2.2. INCIDENTAL REGISTRATION. (a) If the Company at any time proposes to register its Common Stock under the Securities Act (other than a registration in connection with an acquisition in a manner which would not permit registration of Registrable Securities for sale to the public or in connection with an acquisition for a consideration of \$10 million or less, other than a registration on Form S-8, or any successor form thereto, relating to a stock option plan, stock purchase plan, managing directors' plan, savings or

41

similar plan and other than pursuant to section 2.1), whether or not for sale for its own account, the Company will each such time give prompt written notice to all holders of Registrable Securities of its intention to do so and of such holders' rights under this section 2.2. Upon the written request of any such holder made within 30 days after the receipt of any such notice (which request shall specify the Registrable Securities intended to be disposed of by such holder and shall state the intended method of disposition thereof), the Company will use its best efforts to effect the registration under the Securities Act of all Registrable Securities which the Company has been so requested to register by the holders of Registrable Securities, to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities so to be registered, by inclusion of such Registrable Securities in the registration statement which covers the Common Stock which the Company proposes to register, PROVIDED that if, at any time after giving written notice of its intention to register any securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason either not to register or to delay registering such securities, the Company may, at its election, give written notice of such determination to each holder of Registrable Securities and, thereupon, (i) in the case of a determination not to register, shall be relieved of its obligation to register any Registrable Securities in connection with such registration (but not from its obligation to pay the Registration Expenses in connection therewith), without prejudice, however, to the rights of any holder or holders of Registrable Securities entitled to do so to request that such registration be effected as a registration under section 2.1, and (ii) in the case of a determination to delay registering, shall be permitted to delay registering any Registrable Securities for the same period as the delay in registering such other securities.

(b) No registration effected pursuant to a request or requests referred to in this section 2.2 shall be deemed to have been effected pursuant to section 2.1. The Company will pay all Registration Expenses in connection with each registration of Registrable Securities requested pursuant to this section 2.2.

42

(c) If (i) a registration pursuant to this section 2.2 involves an underwritten offering of the securities so being registered, whether or not for sale for the account of the Company, to be distributed (on a firm commitment basis) by or through one or more underwriters of recognized standing under underwriting terms appropriate for such a transaction, (ii) the Registrable Securities so requested to be registered for sale for the account of holders of Registrable Securities are not also to be included in such underwritten offering (either because the Company has not been requested so to include such Registrable Securities pursuant to section 2.4 or, if requested to do so, is not obligated to do so under section 2.4), and (iii) the managing underwriter of such underwritten offering shall inform the holders of the Registrable Securities requesting such registration by letter of its belief that the distribution of all or a specified number of such Registrable

Securities concurrently with the securities being distributed by such underwriters would interfere with the successful marketing of the Common Stock being distributed by such underwriters (such writing to state the basis of such belief and the approximate number of such Registrable Securities which may be distributed without such effect), then the Company may, upon written notice to all holders of such Registrable Securities, reduce pro rata (if and to the extent stated by such managing underwriter to be necessary to eliminate such effect) the number of such Registrable Securities the registration of which shall have been requested by each holder of Registrable Securities so that the resultant aggregate number of such Registrable Securities so included in such registration shall be equal to the number of shares stated in such managing underwriter's letter.

2.3. REGISTRATION PROCEDURES. If and whenever the Company is required by the provisions of this Agreement to use its best efforts to effect or cause the registration of any Registrable Securities under the Securities Act as provided in this Agreement, the Company shall, as expeditiously as possible:

(a) prepare and file with the Securities and Exchange Commission (in the case of a registration pursuant to section 2.1, such filing to be made within 60 days after the initial request of one or more Qualified Holders of Registrable Securities or in any event as soon thereafter as possible) the

43

requisite registration statement with respect to such Registrable Securities (including such audited financial statements as may be required by the Securities Act or the rules and regulations promulgated thereunder) and use its best efforts to cause such registration statement to become and remain effective, PROVIDED that before filing such registration statement or any amendments thereto, the Company will furnish to the counsel selected by the holders of Registrable Securities which are to be included in such registration copies of all such documents proposed to be filed, which documents will be subject to the review of such counsel;

(b) prepare and file with the Securities and Exchange Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to maintain the effectiveness of such registration statement and to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement until the earlier of such time as all of such securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such registration statement or (i) in the case of a registration pursuant to section 2.1, the expiration of 180 days after such registration statement becomes effective, or (ii) in the case of a registration pursuant to section 2.2, the expiration of 90 days after such registration statement becomes effective, PROVIDED that if less than all the Registrable Securities are withdrawn from registration after the expiration of the relevant period, the shares to be so withdrawn shall be allocated pro rata among the holders thereof on the basis of the respective numbers of Registrable Securities held by them included in such registration;

(c) furnish to each seller of Registrable Securities covered by such registration statement and each underwriter, if any, of the securities being sold by such seller such number of copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus included in

44

such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the Securities Act, and such other documents, as such seller and underwriter, if any, may reasonably request in order to facilitate the public sale or other disposition of the

Registrable Securities owned by such seller;

(d) use its best efforts to register or qualify all Registrable Securities covered by such registration statement under such other securities laws or blue sky laws of such jurisdictions as any seller and each underwriter, if any, of the securities being sold by such seller shall reasonably request, to keep such registrations or qualifications in effect for so long as the registration statement remains in effect and do any and all other acts and things which may be necessary or advisable to enable such seller and underwriter, if any, to consummate the disposition in such jurisdictions of such Registrable Securities owned by such seller, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it would not but for the requirements of this paragraph (d) be obligated to be qualified, to subject itself to taxation in any such jurisdiction or to consent to general service of process in any such jurisdiction;

(e) use its best efforts to cause all Registrable Securities covered by such registration statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof to consummate the disposition of such Registrable Securities;

(f) notify each seller of Registrable Securities covered by such registration statement, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the Company's becoming aware that the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in

45

the light of the circumstances then existing, and promptly prepare and furnish to such seller and each underwriter, if any, a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

(g) otherwise use its best efforts to comply with all applicable rules and regulations of the Securities and Exchange Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first day of the Company's first calendar quarter after the effective date of the registration statement, which earnings statement shall satisfy the provisions of section 11(a) of the Securities Act;

(h) provide a transfer agent and registrar for all such Registrable Securities covered by such registration statement not later than the effective date of such registration statement;

(i) enter into such agreements and take such other actions as sellers of such Registrable Securities holding 51% of the shares so to be sold shall reasonably request in order to expedite or facilitate the disposition of such Registrable Securities;

(j) furnish to each seller of Registrable Securities a signed counterpart, addressed to such seller (and the underwriters, if any), of

(i) an opinion of counsel for the Company, dated the effective date of such registration statement (and, if such registration includes an underwritten public offering, an

opinion dated the date of the closing under the underwriting agreement), reasonably satisfactory in

46

form and substance to such seller and

(ii) a "comfort" letter, dated the effective date of such registration statement (and, if such registration includes an underwritten public offering, a letter dated the date of the closing under the underwriting agreement), signed by the independent public accountants who have certified the Company's financial statements included in such registration statement,

covering substantially the same matters with respect to such registration statement (and the prospectus included therein) and, in the case of the accountants' letter, with respect to events subsequent to the date of such financial statements, as are customarily covered in opinions of issuer's counsel and in accountants' letters delivered to the underwriters in underwritten public offerings of securities and, in the case of the accountants' letter, such other financial matters, as such seller (or the underwriters, if any) may reasonably request;

(k) give the holders of Registrable Securities whose Registrable Securities are registered under such registration statement and their underwriters, if any, and their respective counsel and accountants, the opportunity to participate in the preparation of such registration statement, each prospectus included therein or filed with the Securities and Exchange Commission, and each amendment thereof or supplement thereto, and give each of them such access to its books and records and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have certified its financial statements as shall be necessary, in the opinion of the respective counsel of such holders and such underwriters, to conduct a reasonable investigation within the meaning of the Securities Act; and

(l) use its best efforts to list all Registrable Securities covered by such registration statement on each securities exchange on which any of the securities of the same class as the Registrable Securities are then listed.

47

Each holder of Registrable Securities shall be deemed to have agreed by acquisition of such Registrable Securities that upon receipt of any notice from the Company of the occurrence of any event of the kind described in paragraph (f) of this section 2.3, such holder will forthwith discontinue such holder's disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until such holder's receipt of the copies of the supplemented or amended prospectus contemplated by paragraph (f) of this section 2.3 and, if so directed by the Company, will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, then in such holder's possession of the prospectus covering such Registrable Securities current at the time of receipt of such notice. In the event the Company shall give any such notice, the period mentioned in paragraph (b) of this section 2.3 shall be extended by the length of the period from and including the date when each seller of any Registrable Securities covered by such registration statement shall have received the copies of the supplemented or amended prospectus contemplated by paragraph (f) of this section 2.3.

If any such registration or comparable statement refers to any holder by name or otherwise as the holder of any securities of the Company then such holder shall have the right to require (i) the insertion therein of language, in form and substance satisfactory to such holder, to the effect that the holding by such holder of such securities is not to be construed as a recommendation by such holder of the investment quality of the Company's securities covered thereby and that such holding does not imply that such holder will assist in

meeting any future financial requirements of the Company, or (ii) in the event that such reference to such holder by name or otherwise is not required by the Securities Act or any similar federal statute then in force, the deletion of the reference to such holder. The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish the Company such information regarding such seller and the distribution of such securities as the Company may from time to time reasonably request in writing.

If, in connection with any registration under section 2.1 which is proposed by the Company to be on Form S-3 or any similar

48

short form registration statement which is a successor to Form S-3, the managing underwriters, if any, shall advise the Company in writing that in their opinion the use of another permitted form is of material importance to the success of the offering, then such registration shall be on such other permitted form.

2.4. UNDERWRITTEN OFFERINGS. (a) SELECTION OF UNDERWRITERS. If a requested registration pursuant to section 2.1 involves an underwritten offering, the underwriter or underwriters thereof shall be selected by the holders of at least a majority (by number of shares) of the Registrable Securities as to which registration has been requested and shall be acceptable to the Company, which shall not unreasonably withhold its acceptance of such underwriters.

(b) UNDERWRITING AGREEMENT. If requested by the underwriters for any underwritten offering by holders of Registrable Securities pursuant to a registration requested under section 2.1, the Company will enter into an underwriting agreement with such underwriters for such offering, such agreement to be satisfactory in substance and form to the Company, each such holder and the underwriters and to contain such representations and warranties by the Company and such other terms as are customarily contained in agreements of that type, including, without limitation, indemnities to the effect and to the extent provided in section 2.5. The holders of Registrable Securities which are to be distributed by such underwriters shall be parties to such underwriting agreement and may, at their option, require that any or all of the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters shall also be made to and for the benefit of such holders of Registrable Securities and that any or all of the conditions precedent to the obligations of such underwriters under such underwriting agreement be conditions precedent to the obligations of such holders of Registrable Securities. Such holders of Registrable Securities shall not be required to make any representations or warranties to or agreements with the Company or the underwriters other than representations, warranties or agreements regarding

49

such holders and such holders' intended methods of distribution.

(c) INCIDENTAL UNDERWRITTEN OFFERINGS. If the Company at any time proposes to register any of its Common Stock under the Securities Act as contemplated by section 2.2 and such securities are to be distributed by or through one or more underwriters, the Company will, if requested by any holder of Registrable Securities as provided in section 2.2, use its best efforts to arrange for such underwriters to include all the Registrable Securities to be offered and sold by such holder among the securities to be distributed by such underwriters, PROVIDED that if the managing underwriter of such underwritten offering shall inform the holders of the Registrable Securities requesting such registration and the holders of any other shares of Common Stock which shall have exercised, in respect of such underwritten offering, registration rights comparable to the rights under section 2.2 by letter of its belief that inclusion in such underwritten distribution of all or a specified number of such

Registrable Securities or of such other shares of Common Stock so requested to be included would interfere with the successful marketing of the Common Stock (other than such Registrable Securities and other shares of Common Stock so requested to be included) by the underwriters (such writing to state the basis of such belief and the approximate number of such Registrable Securities and shares of other Common Stock so requested to be included which may be included in such underwritten offering without such effect), then the Company may, upon written notice to all holders of such Registrable Securities and of such other shares of Common Stock so requested to be included, exclude pro rata from such underwritten offering (if and to the extent stated by such managing underwriter to be necessary to eliminate such effect) the number of such Registrable Securities and shares of such other Common Stock so requested to be included the registration of which shall have been requested by each holder of Registrable Securities and by the holders of such other Common Stock so that the resultant aggregate number of such Registrable Securities and of such other shares of Common Stock so requested to be included which are included in such underwritten offering shall be equal to the approximate number

50

of shares stated in such managing underwriter's letter. The holders of Registrable Securities whose Registrable Securities are to be distributed by such underwriters shall be parties to the underwriting agreement between the Company and such underwriters and may, at their option, require that any or all of the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters shall also be made to and for the benefit of such holders of Registrable Securities and that any or all of the conditions precedent to the obligations of such underwriters under such underwriting agreement be conditions precedent to the obligations of such holders of Registrable Securities. Such holders of Registrable Securities shall not be required to make any representations or warranties to or agreements with the Company or the underwriters other than representations, warranties or agreements regarding such holders and such holders' intended methods of distribution.

(d) HOLDBACK AGREEMENTS. (i) Each holder of Registrable Securities shall be deemed to have agreed by acquisition of such Registrable Securities, if so required by the managing underwriter, not to effect any public sale or distribution of such securities during the seven days prior to and the 90 days after any underwritten registration pursuant to section 2.1 or 2.2 has become effective, except as part of such underwritten registration, whether or not such holder participates in such registration.

(ii) The Company agrees (x) if so required by the managing underwriter, not to effect any public sale or distribution of its equity securities or securities convertible into or exchangeable or exercisable for any of such securities during the seven days prior to and the 90 days after any underwritten registration pursuant to section 2.1 has become effective, except as part of such underwritten registration and except in connection with a stock option plan, stock purchase plan, managing directors' plan, savings or similar plan, or an acquisition of a business, merger or exchange of stock for stock, and (y) to cause each holder of its equity securities or of any securities convertible into or exchangeable or

51

exercisable for any of such securities, in each case purchased directly from the Company at any time after the date of this Agreement (other than in a public offering), to agree not to effect any such public sale or distribution of such securities during such period, except as part of such underwritten registration.

2.5. INDEMNIFICATION. (a) INDEMNIFICATION BY THE COMPANY.

In the event of any registration of any securities of the Company under the Securities Act, the Company will, and hereby does, indemnify and hold harmless in the case of any registration statement filed pursuant to section 2.1 or 2.2, the holder of any Registrable Securities which are covered by such registration statement, its directors and officers, each other Person who participates as an underwriter in the offering or sale of such Registrable Securities and each other Person, if any, who controls such holder or any such underwriter within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such holder or any such director or officer or underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such securities were registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse such holder and each such director, officer, underwriter and controlling person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, liability, action or proceeding, PROVIDED that (i) the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue

52

statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company specifically stating that it is for use in the preparation thereof and (ii) the provisions of this section 2.5(a) shall not inure to the benefit of any underwriter (or any person controlling such underwriter) on account of any losses, claims, damages, liabilities or actions arising from the sale of securities to any Person if such underwriter failed to send or give a copy of the related prospectus, as the same may be then amended or supplemented, to such Person within the time required by the Securities Act. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such holder or any such director, officer, underwriter or controlling person and shall survive the transfer of such securities by such holder.

(b) INDEMNIFICATION BY THE SELLERS. The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to section 2.3, that the Company shall have received an undertaking satisfactory to it from the prospective seller of such securities, to indemnify and hold harmless (in the same manner and to the same extent as set forth in subdivision (a) of this section 2.5) the Company, each director of the Company, each officer of the Company and each other person, if any, who controls the Company within the meaning of the Securities Act, with respect to any statement or alleged statement in or omission or alleged omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, if such statement or alleged statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by such seller specifically stating that it is for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Such indemnity shall

remain in full force and effect regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling person and shall survive the transfer of such securities by such seller.

(c) NOTICES OF CLAIMS, ETC. Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in the preceding subdivisions of this section 2.5, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action, PROVIDED that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding subdivisions of this section 2.5, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim, the indemnifying party shall be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified, to the extent that it may wish, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall consent to entry of any judgment or enter into any settlement without the consent of the indemnified party or which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability, or a covenant not to sue, in respect of such claim or litigation. No indemnified party shall consent to entry of any judgment or enter into any settlement of any such action the defense of which has been assumed by an indemnifying party without the consent of such indemnifying party.

54

(d) OTHER INDEMNIFICATION. Indemnification similar to that specified in the preceding subdivisions of this section 2.5 (with appropriate modifications) shall be given by the Company and each seller of Registrable Securities with respect to any required registration or other qualification of such Registrable Securities under any federal or state law or regulation of any governmental authority, other than the Securities Act.

(e) PAYMENTS. The indemnification required by this section 2.5 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred.

3. GENERAL.

3.1 ADJUSTMENTS AFFECTING REGISTRABLE SECURITIES. The Company agrees that it shall not effect or permit to occur any combination or subdivision of shares which would adversely affect the ability of the holder of any Registrable Securities to include such Registrable Securities in any registration contemplated by this Agreement or the marketability of such Registrable Securities in any such registration.

3.2 RULE 144. If the Company shall have filed a registration statement pursuant to the requirements of section 12 of the Exchange Act or a registration statement pursuant to the requirements of the Securities Act, the Company covenants that it will timely file the reports required to be filed by it under the Securities Act or the Exchange Act (including but not limited to the

reports under sections 13 and 15(d) of the Exchange Act referred to in subparagraph (c)(1) of Rule 144 adopted by the Securities and Exchange Commission under the Securities Act) and the rules and regulations adopted by the Securities and Exchange Commission thereunder, and will take such further action as any holder of Registrable Securities may reasonably request, all to the extent required from time to time to enable such holder to sell Registrable Securities without registration under the Securities Act within the

55

limitation of the exemptions provided by (i) Rule 144 under the Securities Act, as such Rule may be amended from time to time, or (ii) any similar rule or regulation hereafter adopted by the Securities and Exchange Commission. Upon the request of any holder of Registrable Securities, the Company will deliver to such holder a written statement as to whether it has complied with such requirements.

3.3 NOMINEES FOR BENEFICIAL OWNERS. In the event that Registrable Securities are held by a nominee for the beneficial owner thereof, the beneficial owner thereof may, at its option, be treated as the holder of such Registrable Securities for purposes of any request or other action by any holder or holders of Registrable Securities pursuant to this Agreement (or any determination of any number or percentage of shares constituting Registrable Securities held by any holder or holders of Registrable Securities contemplated by this Agreement).

3.4 STOCKHOLDERS AGREEMENT. Notwithstanding anything above to the contrary, all transfers of Registrable Securities subject to the provisions of the Stockholders Agreement shall, during the term thereof, be made in accordance with said provisions.

3.5 AMENDMENTS AND WAIVERS. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company, Teachers and the holders of 60% or more of the shares of Common Stock originally issued pursuant to the Common Stock Subscription Agreement, or issued in exchange or substitution therefor, at the time outstanding. Each holder of any shares of Common Stock at the time or thereafter outstanding shall be bound by any consent authorized by this section 3.5, whether or not such shares of Common Stock shall have been marked to indicate such consent. The Company will not consent to any modification, supplement or waiver in connection with the registration rights provisions of the Purchase Agreement.

3.6 NOTICES. Except as otherwise provided in this Agreement, notices and other communications under this Agreement

56

shall be in writing and shall be delivered, or mailed by first-class mail, postage prepaid, addressed, (a) if to a party other than the Company, to such party at the address set forth in the Schedule of Stockholders attached to this Agreement, or at such other address as such party shall have furnished to the Company in writing and (b) if to the Company, at 40 N.E. Loop 410, San Antonio, Texas 78216, to the attention of its Secretary, or at such other address, or to the attention of such other officer, as the Company shall have furnished to each holder of Registrable Securities at the time outstanding.

3.7 CERTAIN DEFINITIONS. As used in this Agreement, the following terms have the following respective meanings:

ACQUIRING CORP.: As defined in section 1 of this Agreement.

CLASS A COMMON STOCK: As defined in section 1 of this Agreement.

CLASS B COMMON STOCK: As defined in section 1 of this Agreement.

COMMON STOCK: As defined in section 1 of this Agreement.

COMMON STOCK SUBSCRIPTION AGREEMENT: As defined in section 1 of this Agreement.

COMPANY: As defined in the first paragraph of this Agreement.

EXCHANGE ACT: The Securities Exchange Act of 1934, or any similar federal statute, and the rules and regulations of the Securities and Exchange Commission thereunder, all as the same shall be amended from time to time.

INVESTOR GROUP: As defined in section 1 of this Agreement.

MARKET PRICE: The last sale price, regular way, of the Common Stock on any date, or, if there shall have been no sale on any

57

such date, the average of the closing bid and asked prices of the Common Stock on such date, in each case as officially reported on the principal national securities exchange on which the Common Stock is at the time listed or admitted to trading, or if the Common Stock is not then listed or admitted to trading on any national securities exchange but is designated as a national market system security by the NASD, the last trading price of the Common Stock on such date, or if there shall have been no trade on such date or if the Common Stock is not so designated, the average of the closing bid and asked prices of the Common Stock on such date as shown by the NASD automated quotation system. If at any time the Common Stock is not listed on any exchange or quoted in the domestic over-the-counter market, the "Market Price" shall be deemed to be the fair value thereof, as determined in good faith by an independent brokerage firm selected by the Company and satisfactory to holders of a majority of the Registrable Securities in respect of which a request for registration under section 2.1 has been made, as of a date which is within 15 days preceding the date as of which the determination is to be made.

NASD: The National Association of Securities Dealers, Inc.

PERSON: A corporation, an association, a partnership, an organization, a business, an individual, a government or political subdivision thereof or a governmental agency.

PURCHASE AGREEMENT: As defined in section 1 of this Agreement.

QUALIFIED HOLDERS: Any holder or holders of Registrable Securities making a written request pursuant to section 2.1 for the registration of all or part of the Registrable Securities held by such holder or holders if on the date of such request (a) the Market Price of such Registrable Securities to be registered exceeds \$40,000,000 and (b) the number of shares of such Registrable Securities to be registered is equal to or greater than 10% of the number of shares of Common Stock at the time outstanding.

REGISTRABLE SECURITIES: All shares of Class A Common Stock issued or issuable pursuant to the Common Stock Subscription

58

Agreement or the Purchase Agreement, upon exercise of any Warrants or upon conversion of any shares of Class B Common Stock issued pursuant to the Purchase Agreement or upon exercise of any Warrants, including any securities issued or issuable with respect to such shares of Common Stock or Warrants by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise, except for shares of Common Stock which have been distributed to the public pursuant to a registration statement or Rule 144 (or any successor provision) under the Securities Act. Holders of Warrants or shares of Class B Common Stock shall be deemed to be holders of the Registrable

Securities which are at the time issuable upon exercise of such Warrants or upon conversion of such shares of Class B Common Stock.

REGISTRATION EXPENSES: All expenses incident to the Company's performance of or compliance with section 2, including, without limitation, all registration, filing and NASD fees, all fees and expenses of complying with securities or blue sky laws, all printing expenses, messenger and delivery expenses, the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits and/or "cold comfort" letters required by or incident to such performance and compliance, the fees and disbursements of a single counsel retained by the holders of the Registrable Securities being registered (or, if Teachers has requested the registration of Registrable Securities in connection with a registration under section 2, at Teachers' election, one counsel for Teachers and one counsel for all other holders of Registrable Securities being registered) and any fees and disbursements of underwriters customarily paid by issuers or sellers of securities, but excluding underwriting discounts and commissions and transfer taxes, if any, PROVIDED that, in any case where Registration Expenses are not to be borne by the Company, such expenses shall not include salaries of Company personnel or general overhead expenses of the Company, and shall not include auditing fees, premiums or other expenses relating to liability insurance required by underwriters or the Company, or other expenses for the preparation of financial statements or other data normally prepared by the Company in the ordinary course of its business or which the Company would have incurred in any event.

59

SECURITIES ACT: The Securities Act of 1933, or any similar federal statute, and the rules and regulations of the Securities and Exchange Commission thereunder, all as the same shall be amended from time to time.

SECURITIES AND EXCHANGE COMMISSION: The U.S. Securities and Exchange Commission, or any other federal agency at the time administering the Exchange Act or the Securities Act, whichever is the relevant statute for the particular purpose.

STOCKHOLDERS AGREEMENT: The Stockholders Agreement, dated as of the date of this Agreement, in the form set forth as Exhibit I to the Purchase Agreement.

TEACHERS: As defined in section 1 of this Agreement.

WARRANTS: As defined in section 1 of this Agreement.

3.8 MISCELLANEOUS. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties thereto, whether so expressed or not. This Agreement embodies the entire agreement and understanding between the Company and each other party hereto and supersedes all prior agreements and understandings relating to the subject matter hereof. This Agreement shall be construed and enforced in accordance with and governed by the law of the State of Delaware, without reference to the principles of the conflicts of laws thereof. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

60

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed on the date first written above.

HH HOLDING INC.

By /s/ Donald R. Crews

TEACHERS INSURANCE AND ANNUITY
ASSOCIATION OF AMERICA

By /s/ Kent M. Phillips

INCENTIVE BONUS PLAN

1. This Plan continues and confirms the incentive bonus arrangements which have applied to the Senior Management Group for the last several years and which the Board intends to continue until amended or terminated by further action of the Board.
2. The members of the Senior Management Group, and such other officers of the Company as may be selected from time to time by the Compensation Committee, are entitled to participate in this Plan.
3. Prior to the beginning of each year, the Compensation Committee shall establish in writing for each participant specific financial or other goals against which the participant's performance shall be measured. Those goals may relate to revenues, operating income, debt levels, earnings per share or otherwise, and may apply to the company on a consolidated basis, to a core business or unit thereof, or any combination of the foregoing.
4. The goals shall be established in gradients, and participants shall be entitled to receive each year as a cash bonus pursuant to this Plan an amount up to 70% of base compensation.
5. All determinations of levels of goal achievement shall be based on the Company's audited financial statements or other objective sources.
6. Bonus payments shall be made only after the Compensation Committee has certified the extent to which goals have been attained.
7. The Compensation Committee shall have the authority to interpret this Plan and to adopt such rules as it deems appropriate for administrative purposes. Board approval is required to adopt any material modification to this Plan.

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES
EARNINGS PER SHARE COMPUTATIONS

(in thousands, except per share data)

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Income (loss) before extraordinary item and cumulative effect of accounting change	\$ (45,472)	\$ 2,336	\$ (7,052)
Extraordinary item	(7,393)	--	--
Cumulative effect of change in method of accounting	--	--	3,114
Net income (loss)	\$ (52,865)	\$ 2,336	\$ (3,938)
Shares used in net earnings per share computations	13,038	12,214	12,343
Net income (loss) per share:			
Income (loss) before extraordinary item and cumulative effect of accounting change	\$ (349)	\$ 19	\$ (57)
Extraordinary item	(56)	--	--
Cumulative effect of change in method of accounting	--	--	25
Net income (loss)	\$ (405)	\$ 19	\$ (32)

COMPUTATION OF SHARES USED IN NET EARNINGS PER SHARE
COMPUTATIONS

	YEAR ENDED DECEMBER 31		
	1993	1992	1991
Average outstanding common shares	12,873	11,910	12,214
Average common equivalent shares -- dilutive effect of option shares	--	175	--
Dilutive effect of shares, options and warrants issued in the preceding twelve months	165	129	129
Shares used in net earnings per share computations	13,038	12,214	12,343

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

OVERVIEW

From the time of the leveraged buyout in 1984 until 1992, the Company focused on improving operating cash flows and reducing debt by reducing costs, selectively introducing new products and implementing a corporatwide quality program. Beginning in 1992, the Company developed a strategy to accelerate growth by taking advantage of opportunities in the businesses and markets in which it operates. It began increasing its investments in technology, equipment and personnel, introducing new products and services in existing markets, entering new markets and making acquisitions. As a result of these investments and improving economies in some of the Company's markets, revenues grew \$47.3 million from \$416.2 million in 1991 to \$463.5 million in 1993. Nevertheless, sluggish local economies in Massachusetts affected revenues in the Company's Boston suburban newspaper operation and in California affected the Company's shopper operations. At the same time, operating income, excluding the goodwill write-down discussed under "Goodwill Write-Down" (page 16), increased from \$38.3 million in 1991 to \$51.9 million in 1993.

In 1993, Harte-Hanks redeemed all of its \$200 million principal amount 11 7/8% Subordinated Debentures and significantly reduced its interest expense. A portion of this redemption (\$100 million) was funded in August 1993 with borrowings under the Company's credit facility, which at December 31, 1993 had an effective rate of 5.0%. The remaining \$100 million redemption in December 1993 was funded primarily with proceeds from the Company's initial public offering in November 1993. The Company issued 6,250,000 shares of its common stock at an initial public offering price of \$16.50 per share for net proceeds of \$95.3 million. With these redemptions, the Company reduced its total borrowings from \$394.0 million at December 31, 1992 to \$321.1 million at December 31, 1993. As a result of both of these redemptions, the Company expects to save approximately \$18 million in annual interest based upon its effective borrowing rate of 5.0% at December 31, 1993.

Harte-Hanks derives the majority of its revenues from the sale of advertising and direct marketing services. In addition, the Company's newspapers earn revenues from paid circulation. The Company's newspapers, shoppers and television station operate in local markets and are affected by the strength of the local economies as well as by national trends that affect these local economies. As a national business, direct marketing is affected to a greater extent by general national economic trends and developments in national markets for its services and products. The Company's principal expense items are payroll, postage and newsprint. Newsprint prices were low by historical standards during 1992 and 1993. Postal rates, which typically increase every three to four years, rose in 1991 and are expected to increase in 1995.

64

RESULTS OF OPERATIONS

Operating results, excluding the effect of the goodwill write-down, extraordinary items and the cumulative effect of a change in accounting method, were as follows:

IN THOUSANDS	1993	CHANGE	1992	CHANGE	1991
Revenues	\$463,510	9.5%	\$423,296	1.7 %	\$416,227
Operating expenses	411,587	9.5%	376,048	(0.5)%	377,899
Operating income	\$ 51,923	9.9%	\$ 47,248	23.3 %	\$ 38,328
Net income (loss)	\$ 9,991		\$ 2,336		\$ (7,052)

Revenues grew in all business segments in 1993. The growth was influenced by the development of new products and services, as well as

investments in shopper circulation expansion. The acquisition of a direct marketing company in April 1993 also was a factor, as were improving economies in some of the Company's markets. The same factors also caused operating expenses to increase \$35.5 million (9.5%), excluding the effect of the goodwill write-down of \$55.5 million. During 1993, the Company's California markets continued to be affected by weak economic conditions.

Total revenues increased in 1992 despite difficult economies in California, which affected the Company's largest shopper, and in Boston, which affected the Company's newspapers in suburban Boston. In addition, Hurricane Andrew affected the Company's shopper in Miami. The 1992 revenue increase was due to growth in direct marketing and television revenues. Operating expenses during the same period decreased \$1.9 million (0.5%) as a result of the Company's continued focus on cost control.

NEWSPAPERS

Newspaper operating results, excluding the effect of the goodwill write-down, were as follows:

IN THOUSANDS	1993	CHANGE	1992	CHANGE	1991
Revenues	\$131,545	4.2%	\$126,222	(0.7)%	\$127,061
Operating expenses	109,812	4.3%	105,249	(4.7)%	110,397
Operating income	\$ 21,733	3.6%	\$ 20,973	25.9%	\$ 16,664

Advertising revenues rose \$4.1 million in 1993 due to increased volumes and new products. Retail and classified advertising revenues grew 2.5% and 7.8%, respectively. In addition, circulation revenues grew \$1.0 million due primarily to higher rates. In 1993, payroll costs increased \$2.9 million resulting primarily from normal payroll increases as well as from investments made to develop niche publications and specialized services. Higher volumes and, to a lesser extent, price increases caused newsprint costs to increase by \$1.7 million.

In 1992, both retail and classified advertising revenues were relatively flat. Commercial printing revenues declined \$1.3 million, partially offset by

circulation revenue increases of \$0.7 million, which resulted from increased circulation. In 1992, production and distribution costs decreased \$3.9 million, which included a \$3.1 million decline in newsprint costs as well as expense reductions resulting from cost control measures. Newsprint costs declined due to lower prices coupled with reduced usage, principally due to a decrease in commercial printing operations.

SHOPPERS

Shopper operating results, excluding the effect of the goodwill write-down, were as follows:

IN THOUSANDS	1993	CHANGE	1992	CHANGE	1991
Revenues	\$174,521	6.4%	\$164,021	(0.5)%	\$164,928
Operating expenses	159,080	7.1%	148,504	(0.1)%	148,694
Operating income	\$ 15,441	(0.5)%	\$ 15,517	(4.4)%	\$ 16,234

Shopper advertising revenues grew in 1993 primarily as a result of increased circulation of 0.9 million households (79 zones) to 7.0 million households at December 31, 1993. This circulation growth occurred in the Southern California, Miami/Ft. Lauderdale and Dallas/Fort Worth markets. Higher insert volumes in existing zones and restored circulation in the Company's Miami shopper, which was negatively impacted by Hurricane Andrew in August 1992, were also factors in the 1993 revenue growth. Also, shoppers' 1993 results as compared to 1992 results were affected by there being one more publishing week in 1992 than in 1993. In February 1994, the Company sold its smallest shopper located in Tucson, Arizona. This shopper had circulation of 0.3 million at December 31, 1993.

In 1993, postage costs increased \$5.1 million, and newsprint costs increased \$1.6 million. Other expense categories, except payroll, also rose due to the increase in shopper advertising volumes. Postage costs increased due to higher circulation and higher insert volumes, which

result in increased postage costs due to the application of the overweight postal rate. Newsprint costs rose as a result of increased circulation in expansion zones as well as higher ad volumes in existing zones. While increased circulation caused postage and newsprint costs to rise, payroll costs remained relatively flat due to the Company's use of automatic inserting technology and other cost control measures. New circulation has lower revenues per thousand households than mature zones, which initially results in lower shopper operating margins.

The shopper operating revenue decrease in 1992 primarily reflected the effect of Hurricane Andrew on the Company's shopper in Miami, Florida. While the Company's shopper experienced an interruption in operations and decreased advertising for a short period of time, the storm had little effect on its ongoing operations. Commercial printing revenues also declined \$0.7 million. In addition, the Company's Tucson shopper revenues declined. These revenue decreases were slightly offset by an additional publishing week in 1992 as compared to 1991 and by increased advertising revenues in the Southern California market, where circulation expansions added 0.2 million households (27 zones) in 1992. Increased insert advertising by new major retail accounts offset decreased local advertising that resulted from the weak economies in Northern and Southern California.

66

Payroll costs and newsprint costs each decreased \$1.7 million in 1992. These decreases were partially offset by increased postage costs of \$2.8 million. Major customer insert advertising volumes increased, which resulted in higher postage costs due to the application of the overweight postal rate. Circulation expansion in Southern California also contributed to the higher postage costs. Newsprint costs decreased due to lower newsprint prices. Payroll costs decreased as a result of continued focus on controlling costs.

DIRECT MARKETING

Direct marketing operating results were as follows:

IN THOUSANDS	1993	CHANGE	1992	CHANGE	1991
Revenues	\$129,626	20.7%	\$107,351	6.4%	\$100,930
Operating expenses	116,806	21.1%	96,439	3.3%	93,399
Operating income	\$ 12,820	17.5%	\$ 10,912	44.9%	\$ 7,531

The 1993 direct marketing revenue growth is a result of continued development and marketing of database and customized data processing services and products. The development and marketing activities resulted in increased sales to existing customers, additional new customers and expansion into international markets. In addition, the Company purchased technology to grow its integrated direct marketing business, which contributed to 1993 revenue growth. Also, the Company acquired a direct marketing company in Jacksonville, Florida in April 1993, which accounted for approximately \$7 million of 1993 direct marketing revenues.

Payroll costs in 1993 rose as a result of an increased customer base and investments in new product development and sales force infrastructure. In addition, the Company incurred operating costs associated with the move of its Cincinnati direct marketing operation as well as startup costs associated with its integrated direct marketing business. In addition, operating expenses associated with the newly acquired direct marketing operation in Jacksonville were part of the 1993 operating expense increase.

In 1992, transportation services revenues increased \$3.5 million due, in part, to the Company's use of its TOPS (Transportation Optimization of Postal Savings) software program, which optimizes customers' postal costs and improves on-time delivery of customers' advertising material. Database revenues rose \$2.5 million from marketing efforts for new database products and services as well as from growth in applications for database products in new industry sectors, particularly retail.

Transportation services costs increased \$2.1 million and payroll costs increased \$1.7 million in 1992 to support the increased demand for the Company's direct marketing services and products.

TELEVISION

Television operating results were as follows:

IN THOUSANDS	1993	CHANGE	1992	CHANGE	1991
Revenues	\$27,818	8.2%	\$25,702	10.3%	\$23,308
Operating expenses	19,654	0.5%	19,562	3.6%	18,889
Operating income	\$ 8,164	33.0%	\$ 6,140	38.9%	\$ 4,419

Both local and national television advertising revenues grew in 1993. In addition, KENS-TV introduced a direct mail product in 1993, which influenced revenue growth. Local television advertising revenues grew 12.6% due to increased volumes and higher rates resulting from KENS' continued leadership position in a healthy San Antonio economy and the 1992 closure of one of San Antonio's two competing daily newspapers. National television advertising also increased 5.5% due to higher demand. Political revenues decreased \$0.4 million in 1993, which partially offset these revenue increases. Payroll costs and production costs related to the direct mail product increased in 1993 but were offset by decreases in film programming costs.

Local and national television advertising revenues increased 7.1% and 8.6%, respectively, in 1992. Political advertising revenues were \$0.6 million higher due to the national, state and local elections that year. Local television advertising revenues increased as a result of KENS' continued leadership position in a strong San Antonio market. National advertising revenues grew due to special events, including the 1992 Winter Olympics and the 1992 Super Bowl. Payroll costs increased in 1992, while the remainder of the Company's television operating expenses remained relatively flat due to continued efforts to control costs.

GOODWILL WRITE-DOWN

In connection with the Company's review of the carrying amount of its investments, including assigned goodwill, the Company determined that goodwill associated with certain of its investments should be written down. That resulted in a charge of \$55.5 million in the second quarter of 1993. The write-down was solely related to daily, semi-weekly and weekly newspapers in suburban markets in Boston, Massachusetts (\$43.9 million), and in Dallas, Texas (\$8.8 million) and to the Company's shopper publication in Tucson, Arizona (\$2.8 million).

In connection with its review, the Company projected undiscounted cash flows for each of its investments over the investment's associated remaining goodwill amortization period. After these projections were compared to corresponding net book values of fixed assets and unamortized goodwill balances, the net goodwill balances were reduced such that the net fixed assets and unamortized goodwill values assigned to these investments were equal to the projected future cash flows discounted at the Company's incremental borrowing rate.

The cash flow projections were based on economic conditions in those markets and the historical financial performance of these investments, as well as recent changes in competitive conditions in those markets. Management believes operating performance and growth opportunities for each of these investments have

been permanently affected. See Note K of Notes to Consolidated Financial Statements.

INTEREST EXPENSE

Interest expense decreased \$6.1 million in 1993 and \$4.6 million in 1992. The most significant factor in the 1993 decrease was the redemption of the Company's \$200 million 11 7/8% Subordinated Debentures. \$100 million of this redemption occurred in August 1993 with borrowings under the Company's credit facility, which at December 31, 1993 had an effective rate of 5.0%. The remaining \$100 million redemption occurred in

December 1993 primarily with proceeds from the Company's initial public offering. As a result of both redemptions, the Company expects to save approximately \$18 million in annual interest based upon its effective borrowing rate of 5% at December 31, 1993.

Interest expense declined in 1992 due to lower interest rates and reduced debt levels.

INCOME TAXES

The Company's income tax expense relating to income before extraordinary items increased \$1.8 million in 1993 and \$6.3 million in 1992 as a result of increased income. The 1993 increase included a benefit of \$1.0 million as a result of the Company's recognition of a deferred tax asset, which resulted from state net operating loss carryforwards. In 1991, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." As a result, the Company recognized the cumulative favorable effect of a change in the method of accounting for income taxes of \$3.1 million in 1991.

The increase of the corporate federal income tax rate from 34% to 35%, effective as of January 1993, did not have a material effect on the Company's 1993 income tax provision.

EXTRAORDINARY ITEMS

As a result of the 1993 redemptions discussed under "Interest Expense," the Company incurred extraordinary losses totaling \$7.4 million, net of income tax benefits of \$4.3 million, from the payment of redemption premiums and the write-off of related unamortized financing costs and issuance costs.

CAPITAL INVESTMENTS

Investing activities for 1993 included \$21.7 million in capital expenditures and \$10.9 million in expenditures for acquisitions and reflect the Company's increased investment activities begun in late 1992. The capital expenditures included a nine-unit offset printing press and related building project for the Company's newspaper in Corpus Christi, Texas; shopper inserting and pagination technology; and equipment that supports the Company's integrated direct marketing business. Additionally, equipment was replaced at the Company's Miami shopper damaged during Hurricane Andrew, for which the Company was substantially reimbursed by insurance proceeds. The acquisitions consisted of the purchases of a direct marketing company in Jacksonville, Florida; a radio station in San

69

Antonio, Texas (KENS-AM), and a West Texas direct mail coupon publication incorporated into the newspaper products in Abilene, San Angelo and Wichita Falls, Texas. These acquisitions and capital expenditures, which support the Company's growth strategy, were funded by the issuance of \$20 million of Convertible Notes in September 1992, proceeds of which were used initially to reduce bank debt, and from cash provided by operating activities.

The Company expects capital expenditures in the next two to three years to be in the range of \$10 million annually. Additional amounts may be spent on selective acquisitions as opportunities arise that are consistent with the Company's strategy.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities for the year ended December 31, 1993 was \$26.4 million. Net cash outflows for investing activities, which consist primarily of capital expenditures and acquisitions, were \$34.7 million for the year ended December 31, 1993 as compared to \$10.3 million for the year ended December 31, 1992. See above discussion of capital expenditures under "Capital Investments."

Cash provided by operating activities for the years ended December 31, 1992 and 1991 was \$23.8 million and \$23.1 million, respectively. For the years ended December 31, 1992 and 1991, capital expenditures were \$6.9 million and \$4.5 million, respectively, and

consisted principally of the purchase of equipment.

Capital resources are also available from and provided through the Company's unsecured credit facility. On May 19, 1993, the Company entered into a \$320 million credit facility, which includes a \$220 million revolving loan commitment and a \$100 million term loan. This credit facility replaced the Company's \$200 million revolving credit commitment that was scheduled to expire December 31, 1993. All borrowings under the revolving credit facility are to be repaid by December 31, 1999. Management believes that its credit facility, together with cash provided by operating activities, will be sufficient to fund operations, anticipated capital and film expenditures and debt service requirements for the foreseeable future. As of December 31, 1993, the Company had \$50.2 million of unused borrowing capacity under its credit facility, of which \$28.2 million was reserved to serve as backup for the Company's outstanding commercial paper.

SEASONALITY AND CYCLICALITY

The Company's businesses tend to be seasonal, with higher revenues and profits occurring in the second through the fourth quarters due to the increased advertising activity during these periods. In addition, the Company's television operation experiences higher revenues and profits during those years when political elections are held. See Note L of Notes to Consolidated Financial Statements.

Harte-Hanks Communications, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

ASSETS	December 31,	
	1993	1992
Current assets		
Cash.....	\$ 4,392	\$ 3,279
Accounts receivable (less allowance for doubtful accounts of \$2,025 in 1993 and \$2,512 in 1992) ..	61,130	56,087
Inventory.....	8,032	7,986
Prepaid expenses.....	5,385	5,071
Current deferred income tax benefit.....	4,549	4,763
Other current assets.....	3,765	4,685
Total current assets.....	87,253	81,871
Property, plant and equipment		
Land.....	10,679	9,894
Buildings and improvements.....	42,230	38,373
Equipment and furniture.....	130,733	119,135
	183,642	167,402
Less accumulated depreciation.....	99,721	91,251
	83,921	76,151
Construction and equipment installations in progress.....	6,888	2,059
Net property, plant and equipment.....	90,809	78,210
Goodwill (less accumulated amortization of \$95,996 in 1993 and \$85,812 in 1992).....	292,944	347,105
Other assets.....	7,932	8,293
Total assets.....	\$478,938	\$515,479
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable.....	\$ 24,422	\$ 22,675
Accrued payroll and related expenses.....	12,607	10,701
Accrued interest.....	950	11,004
Prepaid subscriptions.....	3,753	3,510
Current portion of film contracts.....	1,233	2,143
Income taxes payable.....	235	2,191
Other current liabilities.....	10,765	8,780
Current portion of long term debt.....	977	175,215
Total current liabilities.....	54,942	236,219
Long term debt.....	320,087	218,828
Other long term liabilities (including deferred income taxes of \$10,424 in 1993 and \$11,262		

in 1992).....	20,045	18,993
Total liabilities.....	395,074	474,040
Stockholders' equity		
Common stock, \$1 par value, authorized 50,000,000 shares. Issued and outstanding 1993: 18,129,400 shares; 1992: 11,880,900 shares (excluding 2,119,100 treasury shares in 1992).....	18,129	11,881
Additional paid-in capital.....	142,664	53,615
Accumulated deficit.....	(76,929)	(24,057)
Total stockholders' equity.....	83,864	41,439
Total liabilities and stockholders' equity.....	\$478,938	\$515,479

See Notes to Consolidated Financial Statements.

71

Harte-Hanks Communications, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31,		
	1993	1992	1991
Revenues.....	\$463,510	\$423,296	\$416,227
Operating expenses			
Payroll.....	174,557	160,241	159,601
Production and distribution.....	165,993	147,853	149,341
Advertising, selling, general and administrative.....	49,355	44,982	45,203
Depreciation.....	11,506	12,184	12,969
Goodwill amortization.....	10,176	10,788	10,785
Goodwill write-down.....	55,463	--	--
	467,050	376,048	377,899
Operating income (loss).....	(3,540)	47,248	38,328
Other expenses (income)			
Interest expense.....	30,872	37,015	41,582
Interest income.....	(160)	(522)	(703)
Other, net.....	865	(101)	2,300
	31,577	36,392	43,179
Income (loss) before income taxes.....	(35,117)	10,856	(4,851)
Income tax expense.....	10,355	8,520	2,201
Income (loss) before extraordinary item and cumulative effect of accounting change.....	(45,472)	2,336	(7,052)
Extraordinary item -- Loss due to early extinguishment of debt, net of income tax benefit of \$4,319.....	(7,393)	--	--
Cumulative effect to January 1, 1991 of change in method of accounting for income taxes.....	--	--	3,114
Net income (loss).....	\$(52,865)	\$ 2,336	\$ (3,938)
Earnings (loss) per common share:			
Income (loss) before extraordinary item and cumulative effect of accounting change.....	\$ (3.49)	\$.19	\$ (.57)
Extraordinary item.....	(.56)	--	--
Cumulative effect of accounting change.....	--	--	.25
Net income (loss).....	\$ (4.05)	\$.19	\$ (.32)
Weighted average common and common equivalent shares outstanding.....	13,038	12,214	12,343

See Notes to Consolidated Financial Statements.

72

Harte-Hanks Communications, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended December 31,		
	1993	1992	1991
Operating Activities			

Net income (loss).....	\$ (52,865)	\$ 2,336	\$ (3,938)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation.....	11,506	12,184	12,969
Goodwill amortization.....	10,176	10,788	10,785
Bad debt expense.....	4,160	3,649	4,047
Film amortization.....	3,293	4,209	4,034
Deferred income taxes.....	(585)	(694)	(2,456)
Other, net.....	(223)	280	1,581
Goodwill write-down.....	55,463	--	--
Extraordinary loss due to early extinguishment of debt.....	11,712	--	--
Changes in operating assets and liabilities, net of effects from acquisitions:			
Increase in accounts receivable, net.....	(9,203)	(12,841)	(3,157)
(Increase) decrease in inventory.....	(46)	3,544	1,071
(Increase) decrease in prepaid expenses and other current assets.....	(346)	574	3,441
Increase (decrease) in accounts payable..	1,784	791	(1,092)
Decrease in other accrued expenses and other liabilities.....	(8,500)	(1,462)	(3,378)
Other, net.....	103	480	(792)
Net cash provided by operating activities..	26,429	23,838	23,115
Cash Flows from Investing Activities:			
Acquisitions.....	(10,896)	(1,550)	--
Purchases of property, plant and equipment..	(21,689)	(6,886)	(4,453)
Proceeds from the sale of property, plant and equipment.....	1,101	1,942	898
Payments on film contracts.....	(3,182)	(3,800)	(4,312)
Net cash used in investing activities.....	(34,666)	(10,294)	(7,867)
Cash Flows from Financing Activities:			
Long term debt borrowings.....	580,615	163,385	95,267
Payments on debt, including current maturities and financing costs.....	(659,663)	(174,140)	(105,455)
Payment of premium on early extinguishment of debt.....	(6,892)	--	--
Issuance of common stock.....	95,305	--	--
Sale of treasury stock.....	--	5	57
Purchase of treasury stock.....	(15)	(2,258)	(10,391)
Payments received on notes receivable -- management group.....	--	--	4,397
Net cash provided from (used in) financing activities.....	9,350	(13,008)	(16,125)
Net increase (decrease) in cash.....	1,113	536	(877)
Cash at beginning of period.....	3,279	2,743	3,620
Cash at end of period.....	\$ 4,392	\$ 3,279	\$ 2,743

See Notes to Consolidated Financial Statements.

Harte-Hanks Communications, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

In thousands	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Notes Receivable- Management Group	Total Shareholders' Equity
Balance at January 1, 1991.....	\$ 6,582	\$ 60,245	\$(11,199)	\$(4,397)	\$ 51,231
Stock split on a two-for-one basis by means of a stock dividend...	6,067	--	(6,067)	--	--
Purchase of treasury stock.....	(524)	(5,657)	(4,210)	--	(10,391)
Sale of treasury stock.....	11	46	--	--	57
Net loss.....	--	--	(3,938)	--	(3,938)
Decrease in notes receivable -- management group.....	--	--	--	4,397	4,397
Balance at December 31, 1991.....	12,136	54,634	(25,414)	--	41,356
Purchase of treasury stock.....	(256)	(1,023)	(979)	--	(2,258)
Sale of treasury stock.....	1	4	--	--	5
Net income.....	--	--	2,336	--	2,336
Balance at December 31, 1992.....	11,881	53,615	(24,057)	--	41,439
Common stock issuance.....	6,250	89,055	--	--	95,305
Purchase of treasury stock.....	(2)	(6)	(7)	--	(15)

Net loss.....	--	--	(52,865)	--	(52,865)
Balance at December 31, 1993.....	\$18,129	\$142,664	\$(76,929)	\$ --	\$ 83,864

See Notes to Consolidated Financial Statements.

HARTE-HANKS COMMUNICATIONS, 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 Communications, Inc. and subsidiaries (the "Company"). Harte-Hanks Communications, Inc. is the successor of HHC Holding Inc., the former parent company of Harte-Hanks Communications, Inc., which was merged into Harte-Hanks Communications, Inc. on October 7, 1993. All of the stock of HHC Holding Inc. was converted, on a share-for-share basis, into stock of Harte-Hanks Communications, Inc.

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

TELEVISION REVENUES

Television revenues are presented net of advertising agency commissions. Television revenues for the years ended December 31, 1992 and 1991 have been reclassified to reflect this presentation.

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.....	4 to 20 years

GOODWILL

Goodwill is stated on the basis of cost, adjusted as discussed below, and is amortized on a straight-line basis over 40-year periods.

For each of its investments, the Company assesses the recoverability of its goodwill by determining whether the amortization of the goodwill balance over its remaining life can be recovered through projected undiscounted future cash flows over the remaining amortization period. If projected future cash flows indicate

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

that unamortized goodwill will not be recovered, an adjustment is made to reduce the net goodwill to an amount consistent with projected future cash flows discounted at the Company's incremental borrowing rate. 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.

FILM CONTRACTS

Film contract rights represent agreements with film syndicators for television program material. When a program or film becomes available for telecasting, the cost of the contract is recorded as an asset and the corresponding contractual obligation as a liability. The cost is amortized over the expected number of telecasts. The portions of the cost to be amortized within one year and after one year are reflected in the consolidated balance sheets as current and noncurrent other assets, respectively. The payments under these contracts due within one year and after one year are similarly classified as current and noncurrent liabilities.

INCOME TAXES

Effective January 1, 1991, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which changed the criteria for measuring the provision for income taxes and recognizing deferred tax assets and liabilities. Under the asset and liability method, deferred income taxes are recognized for the tax consequences resulting from "temporary differences" by applying enacted statutory tax rates applicable to future years. These "temporary differences" are associated with differences between the financial statement amounts and the tax bases of existing assets and liabilities. Under SFAS No. 109, a statutory change in tax rates will be recognized immediately in deferred taxes and income.

ACCOUNTS PAYABLE

Included in accounts payable are outstanding checks in excess of cash balances of \$5.1 million in 1993 and in 1992.

EARNINGS (LOSS) PER SHARE

Primary earnings (loss) per common share is 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. Fully diluted earnings (loss) per common share is based upon the weighted average number of common shares outstanding, dilutive common stock equivalents from the assumed exercise of stock options and assumed conversion of convertible notes. Fully diluted earnings (loss) per common share is the same as primary earnings (loss) per share because the effect of the Company's 6 1/4% Convertible Notes due 2002 (the "Convertible Notes") is antidilutive for the applicable periods presented. Stock options issued within one year of the Company's initial public offering have been considered outstanding for all periods presented in accordance with the rules of the Securities and Exchange Commission.

76

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

NOTE B -- LONG TERM DEBT

Long term debt consists of the following:

In thousands	December 31,	
	1993	1992
Revolving loan commitment, various interest rates (effective rate of 5.3% at December 31, 1993), due in mandatory reductions beginning June 30, 1996 through December 31, 1999.....	\$169,800	\$168,100
Term loan, various interest rates (effective rate of 5.0% at December 31, 1993), due in mandatory reductions beginning June 30, 1995 through June 30, 1999.....	100,000	--
Commercial paper (effective rate of 4.7% at December 31, 1993).....	28,220	6,644
6 1/4% Convertible Notes due September 15, 2002..	20,000	20,000

11 7/8% Subordinated Debentures due August 1, 2000, net of discount (\$1,809 in 1992).....	--	198,191
Miscellaneous notes payable, interest rates ranging from 8% to 10%, due on various dates through 1998.....	3,044	1,108
	321,064	394,043
Less current maturities.....	977	175,215
	\$320,087	\$218,828

CREDIT FACILITY

On May 19, 1993, the Company entered into a \$320 million credit facility, which includes a \$220 million revolving loan commitment and a \$100 million term loan. This credit facility replaced the Company's \$200 million revolving credit commitment that was scheduled to expire December 31, 1993. The \$220 million revolving loan commitment requires mandatory reductions of \$22 million in 1996, \$27.5 million in 1997, \$33 million in 1998, and \$137.5 million in 1999. The \$100 million term loan requires repayments of \$10 million in 1995, \$20 million in both 1996 and 1997, and \$25 million in both 1998 and 1999. The Company pays a 3/8% per annum commitment fee on the unused portion of this revolving loan commitment. As of December 31, 1993, the Company had \$50.2 million of unused borrowing capacity under its credit facility, of which \$28.2 million was reserved to serve as backup for the Company's outstanding commercial paper.

As of December 31, 1992, all borrowings under the \$200 million revolving credit commitment were to be repaid by December 31, 1993. Therefore, of the \$175.2 million classified as current maturities as of December 31, 1992, \$174.7 million represents borrowings under the Company's revolving credit commitment and its commercial paper borrowings.

77

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

COMMERCIAL PAPER

The Company maintains unused and available credit under its credit facility in an amount equal to its outstanding commercial paper borrowings.

6 1/4% CONVERTIBLE NOTES

In September 1992, the Company issued \$20 million principal amount of its Convertible Notes due September 15, 2002 to an affiliate of Goldman, Sachs & Co. The proceeds from the Convertible Notes were used to fund various capital projects and acquisitions. The Convertible Notes bear interest at 6 1/4%, payable on March 15 and September 15 of each year. The Convertible Notes are convertible into shares of common stock at a conversion price of \$14.00. The Convertible Notes may be called at par after March 15, 1996 or at any earlier time that the closing price of the Company's common stock equals or exceeds \$21.00 per share for at least 20 out of the previous 30 trading days.

11 7/8% SUBORDINATED DEBENTURES

In 1993, the Company redeemed all of its \$200 million principal amount Subordinated Debentures at the redemption percentage of 103.446% plus accrued interest, which resulted in an extraordinary loss of approximately \$7.4 million, net of \$4.3 million of income tax benefits, from the payment of premiums and the write-off of related unamortized financing costs and original issue discount. A portion of this redemption (\$100 million) was funded in August 1993 with borrowings under the Company's credit facility. The remaining \$100 million redemption was funded primarily with net proceeds from the Company's initial public offering in November 1993.

OTHER DEBT INFORMATION

As of December 31, 1993, the minimum annual maturities of long term debt (excluding the borrowings under the Company's credit facility) for each of the following years ending December 31 are as follows:

IN THOUSANDS

1994	\$ 977
1995	337
1996	380
1997	100
1998	1,250

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

Cash payments for interest were \$40.8 million, \$37.5 million and \$42.1 million for the years ended December 31, 1993, 1992 and 1991, respectively.

The Company's credit facility and Convertible Notes purchase agreement contain certain restrictive covenants, including limitations on additional indebtedness and payment of dividends, and require the Company to maintain certain financial ratios. At December 31, 1993, the Company was prohibited under the credit facility from paying dividends.

NOTE C -- INCOME TAXES

Effective January 1, 1991, the Company adopted SFAS No. 109, "Accounting for Income Taxes," which changed the criteria for measuring the provision for income taxes and recognizing deferred tax assets and liabilities. In accordance with the provisions of SFAS No. 109, the Company elected to report the effect of applying this statement as a cumulative effect of a change in accounting principle. The cumulative effect to January 1, 1991 of this change in accounting for income taxes was to decrease the 1991 net loss by \$3.1 million with a corresponding reduction in deferred income tax liability.

The components of income tax expense are as follows:

In thousands	Year Ended December 31,					
	1993		1992		1991	
	Current	Deferred	Current	Deferred	Current	Deferred
Federal	\$ 9,438	\$ 1,395	\$7,840	\$(935)	\$ 976	\$ 296
State and local	1,210	(1,688)	1,361	254	567	362
Income tax expense	\$10,648	\$ (293)	\$9,201	\$(681)	\$1,543	\$ 658

Included in income tax expense is an adjustment for changes in federal tax laws of \$0.1 million in 1993 and an adjustment for changes in state tax laws of \$0.2 million in 1991. Of the \$1.7 million recognized as a deferred state income tax benefit in 1993, \$1.0 million represents an adjustment to the beginning of the year valuation allowance due to the realization of benefits from state operating loss carryforwards. The Company also recognized \$4.1 million of current income tax benefits and \$0.2 million of deferred income tax benefits related to the extraordinary loss resulting from the redemption of all of its 11 7/8% Subordinated Debentures.

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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,					
	1993		1992		1991	
Income tax expense (benefit) at statutory Federal income tax rates on income (loss) before income taxes.....	\$ (12,291)	35%	\$ 3,691	34%	\$ (1,650)	34%
Effect of goodwill amortization..	3,528	(9%)	3,668	34%	3,667	(75%)
Effect of goodwill write-down....	19,412	(54%)	--	--	--	--
Change in the beginning of the year balance of the valuation allowance	(967)	(3%)	--	--	--	--
Net effect of state income taxes.....	656	2%	1,066	10%	613	(13%)
Current change in prior tax estimate.....	(25)	--	--	--	(381)	8%
Other, net.....	42	--	95	--	(48)	1%
Income tax expense for the period.....	\$ 10,355	(29%)	\$ 8,520	78%	\$ 2,201	(45%)

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	Year Ended December 31,	
	1993	1992
Deferred tax assets:		
State net operating losses.....	\$ 4,048	\$ 3,360
Accrued benefit costs, primarily pension and vacation pay.....	3,798	3,387
Accrued casualty and health insurance expense..	1,278	1,543
Accounts receivable, net.....	708	854
Other, net.....	368	655
Total gross deferred tax assets.....	10,200	9,799
Less valuation allowance.....	(2,461)	(3,047)
Net deferred tax assets.....	7,739	6,752
Deferred tax liabilities:		
Property, plant and equipment.....	(13,038)	(12,798)
Other, net.....	(576)	(453)
Total gross deferred tax liabilities.....	(13,614)	(13,251)
Net deferred tax liability.....	\$ (5,875)	\$ (6,499)

80

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

The valuation allowance for deferred tax assets as of January 1, 1992 was \$1.0 million. The valuation allowance at December 31, 1993 and 1992 related to state net operating losses.

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

As of December 31, 1993, the Company has net state loss carryforwards, which are available to offset future taxable income. These carryforwards are expected to generate state income tax savings of \$1.6 million and will expire by the year 1999. The Company has recognized a deferred tax asset relating to these carryforwards.

Cash payments for income taxes were \$8.4 million, \$7.2 million and \$2.4 million in 1993, 1992 and 1991, respectively. The Company received income tax refunds of \$1.0 million and \$3.4 million in 1992 and 1991, respectively.

NOTE D -- EMPLOYEE RETIREMENT PLANS

Under the Company's defined benefit pension plans, benefits are based on years of service and the employee's compensation for the five

highest consecutive years of salary during the last ten years of service. Benefits vest to the participants upon completion of five years of service or upon reaching age 65, whichever is earlier.

Harte-Hanks' policy is to accrue as expense an amount computed by its actuary and to fund at least the minimum amount required by ERISA. Net pension cost included the following components:

IN THOUSANDS	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Service cost -- benefits earned during the period.....	\$ 2,861	\$ 2,639	\$ 2,552
Interest cost on projected benefit obligation.....	4,283	3,862	3,616
Actual return on plan assets.....	(3,700)	(2,920)	(6,767)
Net deferrals and amortization.....	(685)	(991)	3,487
Net periodic pension cost.....	\$ 2,759	\$ 2,590	\$ 2,888

In determining the 1993 actuarial present value of projected benefit obligations, a discount rate of 7 1/2% and an annual rate of increase in future compensation levels of 4% were used. In determining the 1992 and 1991 actuarial present value of projected benefit obligations, a discount rate of 9% and an annual rate of increase in future compensation levels of 5% were used. The expected long term rate of return on plan assets was 10%.

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

The status of Harte-Hanks' employee retirement plans at year-end was as follows:

In thousands	December 31,	
	1993	1992
Actuarial present value of benefit obligations:		
Vested.....	\$ 43,961	\$ 34,493
Non-vested.....	4,442	3,664
Total accumulated benefit obligations.....	48,403	38,157
Additional obligation related to projected salary increases.....	13,722	10,180
Projected benefit obligations for service rendered to date.....	62,125	48,337
Fair value of plan assets, primarily listed stocks and government securities.....	(46,244)	(42,351)
Projected benefit obligation in excess of plan assets.....	15,881	5,986
Unrecognized net loss from past experience different from that assumed.....	(11,458)	(1,538)
Unrecognized prior service costs.....	(63)	(68)
Unrecognized net assets at January 1, 1987 being recognized over average expected remaining service period of employees.....	1,201	1,326

Recorded pension liability..... \$ 5,561 \$ 5,706

The Company also sponsors a 401(k) plan to provide employees with additional income upon retirement. The Company matches a portion of employees' voluntary before-tax contributions. Employees are fully vested in their own contributions and vest in the Company's matching contributions upon three years of service.

82

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

NOTE E -- STOCKHOLDERS' EQUITY

On November 3, 1993, the Company issued 6,250,000 shares of its common stock in an initial public offering for net cash proceeds of approximately \$95.3 million. These proceeds were used to redeem the remainder of its outstanding 11 7/8% Subordinated Debentures in the aggregate principal amount of \$100 million, at the redemption price of 103.446% of principal plus accrued interest.

On October 4, 1993, the Company amended its Certificate of Incorporation to increase its total authorized capitalization to 50,000,000 shares of common stock and 1,000,000 shares of preferred stock.

In February 1991, the Company repurchased \$10.3 million of common stock from certain employees and former employees. In turn, these employees and former employees repaid the related notes receivable held by the Company.

NOTE F -- STOCK OPTION PLANS

In 1984, the Company adopted a Stock Option Plan ("1984 Plan") pursuant to which it issued to officers and key employees options to purchase shares of common stock at prices equal to the market price on the grant date. Market price was determined by the Board of Directors for purposes of granting stock options and making repurchase offers. Options granted under the 1984 Plan become exercisable five years after date of grant. At December 31, 1993, 1992 and 1991, options to purchase 722,300 shares, 732,300 shares and 779,300 shares, respectively, were outstanding under the 1984 Plan, with exercise prices ranging from \$5 to \$10 per share. No additional options will be granted under the 1984 Plan.

The Company adopted the 1991 Stock Option Plan ("1991 Plan") pursuant to which it may issue to officers and key employees options to purchase up to 2,000,000 shares of common stock. Options have been granted at prices equal to the market price on the grant date ("market price options") and at \$1.00 per share ("performance options"). As of December 31, 1993, 1992 and 1991, market price options to purchase 826,000 shares, 341,100 shares and 163,500 shares, respectively, were outstanding with an exercise price of \$10 per share, and performance options to purchase 321,000 shares, 198,250 shares and 101,250 shares, respectively, were outstanding with an exercise price of \$1 per share. Market price options become exercisable after the fifth anniversary of their date of grant. The performance options become exercisable after the third anniversary of their date of grant, and the extent to which they become exercisable at that time depends upon the extent to which the Company achieves certain goals which are established at the time the options are granted. Compensation expense of \$1.2 million, \$0.5 million and \$0.2 million was recognized for the performance options for the years ended December 31, 1993, 1992 and 1991, respectively. At December 31, 1993, no options under the 1991 Plan were exercisable.

83

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

The following summarizes stock option plans activity during 1993, 1992 and 1991:

	Year Ended December 31,		
	1993	1992	1991
Options outstanding at January 1....	1,271,650	1,044,050	705,700
Options granted.....	622,150	285,600	384,250
Options exercised.....	--	(1,000)	(10,000)
Options cancelled.....	(24,500)	(57,000)	(35,900)
Options outstanding at December 31..	1,869,300	1,271,650	1,044,050
Options exercisable at December 31..	363,300	188,900	151,300
Option prices per share:			
Granted.....	\$1.00-\$10.00	\$1.00-\$10.00	\$1.00-\$10.00
Exercised.....	--	\$5.00	\$5.00
Cancelled.....	\$1.00-\$10.00	\$1.00-\$10.00	\$1.00-\$10.00

NOTE G -- 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 under all operating leases was \$9.7 million for the years ended December 31, 1993 and 1992 and \$10.8 million for the year ended December 31, 1991. The future minimum rental commitments for all non-cancellable operating leases with terms in excess of one year as of December 31, 1993 are as follows:

IN THOUSANDS

1994.....	\$ 7,260
1995.....	6,142
1996.....	4,737
1997.....	1,887
1998.....	722
After 1998.....	2,261

Total future minimum rental payments...\$23,009

84

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

NOTE H -- BUSINESS SEGMENTS

In thousands	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Operating revenues			
Newspapers.....	\$131,545	\$126,222	\$127,061
Shoppers.....	174,521	164,021	164,928
Direct marketing.....	129,626	107,351	100,930
Television.....	27,818	25,702	23,308
Total operating revenues.....	\$463,510	\$423,296	\$416,227
Operating income (loss) (1)			
Newspapers (1).....	\$ (30,974)	\$20,973	\$ 16,664
Shoppers (1).....	12,685	15,517	16,234
Direct marketing.....	12,820	10,912	7,531
Television.....	8,164	6,140	4,419
General corporate expense, net.....	(6,235)	(6,294)	(6,520)
Total operating income (loss)....	\$ (3,540)	\$47,248	\$ 38,328
Identifiable assets			
Newspapers.....	\$224,280	\$276,891	\$289,606
Shoppers.....	107,617	111,823	110,259
Direct marketing.....	66,164	43,488	38,313
Television.....	71,729	72,408	76,194
General corporate.....	9,148	10,869	12,536
Total identifiable assets.....	\$478,938	\$515,479	\$526,908

Depreciation and goodwill amortization			
Newspapers.....	\$ 10,489	\$11,828	\$ 12,209
Shoppers.....	5,579	5,733	5,951
Direct marketing.....	2,697	2,242	2,225
Television.....	2,770	2,964	2,982
General corporate.....	147	205	387
Total depreciation and goodwill amortization.....	\$ 21,682	\$22,972	\$23,754
Capital expenditures			
Newspapers.....	\$ 9,744	\$ 1,387	\$ 1,094
Shoppers.....	5,857	3,176	1,957
Direct marketing.....	5,498	2,520	1,082
Television.....	573	1,036	311
General corporate.....	17	21	9
Total capital expenditures(2)....	\$ 21,689	\$ 8,140	\$ 4,453

(1) Year ended December 31, 1993 includes goodwill write-down of \$55.5 million. As a result of this write-down, 1993 newspaper and shopper operating income was reduced by \$52.7 million and \$2.8 million, respectively.

(2) Includes \$1.2 million of capitalized expenditures purchased under capital leases for the period ended December 31, 1992.

85

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

NOTE I -- COMMITMENTS AND CONTINGENCIES

At December 31, 1993, the Company had outstanding letters of credit in the amount of \$7.9 million. These letters of credit exist to support the Company's insurance programs relating to worker's compensation, automobile and general liability.

NOTE J -- FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosure about Fair Value of Financial Instruments," requires the disclosure of the fair value of financial instruments.

The Convertible Notes, issued in September 1992, are not publicly traded. Based on the conversion rights of the notes and the market value of the common stock at December 31, 1993, the estimated fair value of the Convertible Notes was \$27.9 million at December 31, 1993.

Because of their maturities and/or interest rates, the Company's other financial instruments have a fair value approximating their carrying value. These instruments include accounts receivable, revolving credit borrowings, commercial paper, trade and film payables, and miscellaneous notes receivable and payable.

NOTE K -- GOODWILL WRITE-DOWN

In connection with its review of the carrying amount, including assigned goodwill, of its investments, the Company determined, based on management's estimate of future cash flows from its properties, that goodwill associated with certain of its investments should be written down. This resulted in a charge of \$55.5 million in the second quarter of 1993. The write-down was solely related to daily, semi-weekly and weekly newspapers in suburban markets in Boston, Massachusetts (\$43.9 million), Dallas, Texas (\$8.8 million) and a shopper publication in Tucson, Arizona (\$2.8 million). See Note A of Notes to Consolidated Financial Statements.

86

HARTE-HANKS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

NOTE L -- SELECTED QUARTERLY DATA (UNAUDITED)

(In thousands, except per share amounts)

	QUARTER ENDED			
	DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH 31
1993				
Operating revenues.....	\$129,369	\$117,512	\$116,011	\$100,618
Operating income (loss).....	17,836	13,478	(40,822) (1)	5,968
Income (loss) before extraordinary item.....	6,650	2,167	(53,167) (1)	(1,122)
Extraordinary loss due to early extinguishment of debt, net of income taxes.....	(3,543) (2)	(3,850) (2)	--	--
Net income (loss).....	3,107	(1,683)	(53,167) (1)	(1,122)
Income (loss) before extraordinary items per common share.....	.40	.17	(4.43) (1)	(.09)
Net income (loss) per common share.....	.19	(.14)	(4.43) (1)	(.09)
1992				
Operating revenues.....	\$116,646	\$106,267	\$105,541	\$94,842
Operating income.....	15,455	12,954	13,632	5,207
Net income (loss).....	1,329	970	(353)	390
Net income (loss) per common share.....	.11	.08	(.03)	.03

Notes:

- (1) Includes a goodwill write-down of \$55.5 million. See Notes A, H and K of Notes to Consolidated Financial Statements.
- (2) Represents extraordinary losses from the redemption of all of the Company's 11 7/8% Subordinated Debentures. See Note B of Notes to Consolidated Financial Statements.

FIVE-YEAR FINANCIAL SUMMARY

(in thousands, except per share amounts)	YEAR ENDED DECEMBER 31,				
	1993 (1)	1992	1991	1990	1989
Income Statement Data:					
Revenues.....	\$463,510	\$423,296	\$416,227	\$426,280	\$432,878
Operating expenses:					
Payroll, production and distribution....	340,550	308,094	308,942	314,526	321,350
Selling, general and administrative.....	49,355	44,982	45,203	48,498	49,534
Depreciation.....	11,506	12,184	12,969	15,062	15,631
Goodwill amortization.....	10,176	10,788	10,785	10,785	10,763
Goodwill write-down.....	55,463	--	--	--	--
Total operating expenses.....	467,050	376,048	377,899	388,871	397,278
Operating income (loss).....	(3,540)	47,248	38,328	37,409	35,600
Interest expense, net.....	30,712	36,493	40,879	47,230	52,987
Income (loss) from continuing operations(2)	(45,472)	2,336	(7,052)	(9,279)	(17,732)
Net income (loss).....	(52,865) (3)	2,336	(3,938) (4)	(18,257) (5)	(17,732)
Income (loss) from continuing operations per common share(2).....	(3.49)	.19	(.57)	(.70)	(1.29)
Net income (loss) per common share.....	(4.05) (6)	.19	(.32)	(1.37)	(1.29)
Weighted average common and common equivalent shares outstanding.....	13,038	12,214	12,343	13,301	13,778
Segment Data:					
Revenues:					
Newspapers.....	\$131,545	\$126,222	\$127,061	\$134,613	\$149,290
Shoppers.....	174,521	164,021	164,928	171,864	168,124
Direct Marketing.....	129,626	107,351	100,930	95,120	92,959
Television.....	27,818	25,702	23,308	24,683	22,505
Total revenues.....	\$463,510	\$423,296	\$416,227	\$426,280	\$432,878
Operating income (loss):					
Newspapers.....	\$ (30,974)	\$ 20,973	\$ 16,664	\$ 15,058	\$ 15,654
Shoppers.....	12,685	15,517	16,234	20,330	21,976
Direct Marketing.....	12,820	10,912	7,531	6,602	5,655
Television.....	8,164	6,140	4,419	5,225	4,099
General corporate.....	(6,235)	(6,294)	(6,520)	(9,806)	(11,784)
Total operating income (loss).....	\$ (3,540)	\$ 47,248	\$ 38,328	\$ 37,409	\$ 35,600
Other Data:					
Operating Cash Flow(7).....	\$ 73,605	\$ 70,220	\$ 62,082	\$ 63,256	\$ 61,994
Capital expenditures.....	21,689	8,140	4,453	11,884	9,340

Balance Sheet Data (at end of period):

Property, plant and equipment, net.....	\$ 90,809	\$ 78,210	\$ 83,114	\$ 93,423	\$ 97,702
Goodwill, net.....	292,944	347,105	356,511	367,294	374,949
Total assets.....	478,938	515,479	526,908	556,129	572,030
Total long term debt.....	320,087	218,828 (8)	399,243	415,994	410,805
Total stockholders' equity(9).....	83,864 (10)	41,439	41,356	51,231	69,258

- (1) Includes goodwill write-down of \$55.5 million (\$4.25 per share). Newspaper and shopper operating income was affected by \$52.7 million and \$2.8 million, respectively. See Notes A, H and K of Notes to Consolidated Financial Statements.
- (2) Represents income (loss) and income (loss) per common share before extraordinary item and cumulative effect of change in accounting method.
- (3) Includes extraordinary loss from the early extinguishment of debt of \$7.4 million, net of \$4.3 million income tax benefit.

88

- (4) Includes the cumulative favorable effect of change in method of accounting for income taxes of \$3.1 million. See Note C of Notes to Consolidated Financial Statements.
- (5) Includes extraordinary loss resulting from the early extinguishment of debt of \$9.0 million, net of \$4.6 million income tax benefit.
- (6) Excluding the goodwill write-down and extraordinary items, earnings per share on a fully diluted basis were 71 cents per share.
- (7) Operating cash flow is defined as operating income plus depreciation and amortization and goodwill write-down. Operating cash flow is not intended to represent cash flow or any other measure of performance in accordance with generally accepted accounting principles.
- (8) Long term debt in 1992 excludes \$174.7 million of borrowings under the Company's revolving credit commitment and commercial paper borrowings classified as current maturities. See Note B of Notes to Consolidated Financial Statements.
- (9) There were no dividends declared in periods presented.
- (10) Includes the net proceeds from issuance of 6,250,000 shares of the Company's common stock at \$16.50 per share in an initial public offering in November 1993.

89

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Harte-Hanks Communications, Inc. and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 1993. 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 generally accepted auditing standards. 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 Communications, Inc. and subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note C to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1991 to adopt the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

KPMG Peat Marwick

San Antonio, Texas
January 28, 1994

SUBSIDIARIES

Exhibit 21

Name of Corporation	State of Incorporation	% of Voting Securities Owned
Advertising Distributors of Maryland, Inc.	Maryland	100
Baltimore Press Company	Delaware	100
Direct Market Concepts, Inc.	Florida	100
The Flyer Publishing Corporation	Florida	100
HTS, Inc.	Connecticut	100
Harte-Hanks Shoppers, Inc.	California	100
Harte-Hanks Community Newspapers, Inc.	Texas	100
Harte-Hanks Direct Mail/California, Inc.	California	100
Harte-Hanks Limited (1)	United Kingdom	100
Harte-Hanks Television, Inc.	Delaware	100
Independent Publishing Company	South Carolina	100
Jordan Dennis Company, Inc.	Massachusetts	100
Mid-America CDM, Inc.	Ohio	100
NSO, Inc.	Ohio	100
Northern Comprint Co.	California	100
Pennysaver Publications, Inc.	Texas	100
Potpourri Shopper, Inc.	California	100
RMH Research, Inc.	New Jersey	100
Shopper's Guide, Inc.	Arizona	100
Southern Comprint Co.	California	100
Urban Data Processing, Inc.	Massachusetts	100

(1) Owned by Urban Data Processing, Inc.

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Harte-Hanks Communications, Inc.:

We consent to incorporation by reference in the registration statement (No. 33-51723) on Form S-8 of Harte-Hanks Communications, Inc. of our report dated January 28, 1994, relating to the consolidated balance sheets of Harte-Hanks Communications, Inc. and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 1993, which report appears in the 1993 annual report to shareholders which is incorporated by reference in the December 31, 1993 annual report on Form 10-K of Harte-Hanks Communications, Inc. and our report dated January 28, 1994, relating to the related financial statement schedules as of and for each of the years in the three-year period ended December 31, 1993, which report appears in the December 31, 1993 annual report on Form 10-K of the Company.

Our report relating to the consolidated financial statements refers to a change in method of accounting for income taxes.

KPMG Peat Marwick

San Antonio, Texas
March 21, 1994