

HARTE HANKS INC
Form 10-Q
August 09, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2006

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 1-7120

HARTE-HANKS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

74-1677284
(I.R.S. Employer
Identification Number)

200 Concord Plaza Drive, San Antonio, Texas
(Address of principal executive offices)

78216
(Zip Code)

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

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

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock: \$1 par value per share, 78,986,672 shares as of July 31, 2006.

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HARTE-HANKS, INC. AND SUBSIDIARIES

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Harte-Hanks, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (in thousands, except share amounts)

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 26,928	\$ 24,561
Accounts receivable, net	171,152	184,537
Inventory	9,479	7,947
Prepaid expenses	17,015	14,783
Current deferred income tax asset	14,528	14,158
Other current assets	11,048	7,718
Total current assets	250,150	253,704
Property, plant and equipment, net	117,117	112,911
Goodwill, net	503,041	502,750
Other intangible assets, net	16,748	16,669
Other assets	3,253	3,629
Total assets	\$ 890,309	\$ 889,663
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	63,722	62,978
Accrued payroll and related expenses	24,449	35,735
Customer deposits and unearned revenue	62,275	54,143
Income taxes payable	14,517	12,710
Other current liabilities	8,856	9,781
Total current liabilities	173,819	175,347
Long-term debt	70,000	62,000
Other long-term liabilities	90,251	90,970
Total liabilities	334,070	328,317
Stockholders' equity		
Common stock, \$1 par value per share, 250,000,000 shares authorized. 115,991,360 and 115,453,416 shares issued at June 30, 2006 and December 31, 2005, respectively	115,991	115,453
Additional paid-in capital	284,344	269,865
Retained earnings	1,024,917	980,505
Less treasury stock: 36,390,169 and 33,965,335 shares at cost at June 30, 2006 and December 31, 2005, respectively	(848,069)	(782,495)
Accumulated other comprehensive loss	(20,944)	(21,982)
Total stockholders' equity	556,239	561,346
Total liabilities and stockholders' equity	\$ 890,309	\$ 889,663

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See Notes to Unaudited Condensed Consolidated Financial Statements.

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Harte-Hanks, Inc. and Subsidiaries

Consolidated Statements of Operations (in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,	
	2006	2005
Operating revenues	\$ 298,372	\$ 284,010
Operating expenses		
Labor	110,482	105,375
Production and distribution	106,138	98,793
Advertising, selling, general and administrative	21,761	24,191
Depreciation and amortization	7,870	7,455
Intangible amortization	573	376
Total operating expenses	246,824	236,190
Operating income	51,548	47,820
Other expenses (income)		
Interest expense	1,013	505
Interest income	(85)	(37)
Other, net	465	282
	1,393	750
Income before income taxes	50,155	47,070
Income tax expense	19,966	17,943
Net income	\$ 30,189	\$ 29,127
Basic earnings per common share	\$ 0.38	\$ 0.34
Weighted-average common shares outstanding	80,329	84,466
Diluted earnings per common share	\$ 0.37	\$ 0.34
Weighted-average common and common equivalent shares outstanding	81,915	86,337

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Harte-Hanks, Inc. and Subsidiaries

Consolidated Statements of Operations (in thousands, except per share amounts)

(Unaudited)

	Six Months Ended June 30,	
	2006	2005
Operating revenues	\$ 576,767	\$ 552,303
Operating expenses		
Labor	218,401	209,677
Production and distribution	207,989	192,381
Advertising, selling, general and administrative	42,999	44,803
Depreciation and amortization	15,325	14,777
Intangible amortization	935	526
Total operating expenses	485,649	462,164
Operating income	91,118	90,139
Other expenses (income)		
Interest expense	1,868	708
Interest income	(111)	(115)
Other, net	729	771
	2,486	1,364
Income before income taxes	88,632	88,775
Income tax expense	34,660	34,575
Net income	\$ 53,972	\$ 54,200
Basic earnings per common share	\$ 0.67	\$ 0.64
Weighted-average common shares outstanding	80,826	84,598
Diluted earnings per common share	\$ 0.65	\$ 0.63
Weighted-average common and common equivalent shares outstanding	82,472	86,381

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Harte-Hanks, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2006	2005
Cash Flows from Operating Activities		
Net income	\$ 53,972	\$ 54,200
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,325	14,777
Intangible amortization	935	526
Stock-based compensation	3,659	128
Excess tax benefits from stock-based compensation	(2,066)	
Deferred income taxes	2,457	988
Other, net	915	308
Changes in operating assets and liabilities, net of acquisitions:		
Decrease (increase) in accounts receivable, net	13,509	(338)
Increase in inventory	(1,500)	(29)
(Increase) decrease in prepaid expenses and other current assets	(5,492)	1,243
Increase in accounts payable	694	89
Decrease in other accrued expenses and other current liabilities	(1,619)	(7,182)
Other, net	(3,444)	1,870
Net cash provided by operating activities	77,345	66,580
Cash Flows from Investing Activities		
Acquisitions, net of cash acquired	(3,093)	(63,274)
Purchases of property, plant and equipment	(17,390)	(16,893)
Proceeds from sale of property, plant and equipment	48	2
Net cash used in investing activities	(20,435)	(80,165)
Cash Flows from Financing Activities		
Long-term borrowings	69,000	48,000
Repayment of long-term borrowings	(61,000)	(15,000)
Issuance of common stock	7,781	7,036
Purchase of treasury stock	(63,119)	(31,443)
Issuance of treasury stock	103	87
Excess tax benefits from stock-based compensation	2,066	
Dividends paid	(9,560)	(8,428)
Net cash (used in) provided by financing activities	(54,729)	252
Effect of exchange rate changes on cash and cash equivalents	186	
Net increase (decrease) in cash and cash equivalents	2,367	(13,333)
Cash and cash equivalents at beginning of year	24,561	38,807
Cash and cash equivalents at end of period	\$ 26,928	\$ 25,474

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Harte-Hanks, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity and Comprehensive Income (in thousands)

(2006 Unaudited)

Common Stock	Additional Paid-In Capital
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