HARTE HANKS INC
Form DEF 14A
April 15, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Harte-Hanks, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

HARTE-HANKS, INC.

200 Concord Plaza Drive, Suite 800

San Antonio, Texas 78216

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 17, 2005

As a stockholder of Harte-Hanks, Inc., you are hereby given notice of and invited to attend in person or by proxy the Annual Meeting of Stockholders of the Company (the Annual Meeting). The Annual Meeting is to be held at 200 Concord Plaza Drive, First Floor, San Antonio, Texas 78216, on Tuesday, May 17, 2005, at 10:00 a.m. Central Time, for the following purposes:

1. To elect three Class III directors, each for a three-year term;

2. To adopt and approve the Harte-Hanks 2005 Omnibus Incentive Plan; and

3. To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board of Directors has fixed the close of business on March 31, 2005 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and any adjournment thereof.

You are cordially invited to attend the Annual Meeting. Whether or not you expect to attend the meeting, you may assure your shares are represented at the meeting by promptly voting and submitting your proxy by telephone, by Internet, or by signing, dating and mailing the enclosed proxy in the enclosed stamped envelope for which no additional postage is required if mailed in the United States.

By Order of the Board of Directors

PAUL S. HACKER

Vice President, Legal and Secretary

San Antonio, Texas

April 15, 2005

YOUR VOTE IS IMPORTANT.

PLEASE VOTE BY TELEPHONE, BY INTERNET OR EXECUTE AND RETURN

PROMPTLY THE ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED.

HARTE-HANKS, INC.

200 Concord Plaza Drive, Suite 800

San Antonio, Texas 78216

PROXY STATEMENT

FOR THE ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 17, 2005

This Proxy Statement is furnished to stockholders of Harte-Hanks, Inc. (Harte-Hanks or the Company) for use at the 2005 Annual Meeting of Stockholders to be held on Tuesday, May 17, 2005 at 10:00 a.m. (Central Time) at 200 Concord Plaza Drive, First Floor, San Antonio, Texas 78216 (the Annual Meeting). The enclosed proxy is solicited on behalf of the Board of Directors of the Company. A stockholder voting by phone, by Internet or by executing the accompanying proxy has the right to revoke it at any time prior to the voting thereof by notifying the secretary of the Company in writing, executing a subsequent proxy or attending the meeting and voting in person. Unless a contrary choice is so indicated, all votes sent via telephone or the Internet or all duly executed proxies received by the Company will be voted in accordance with the instructions set forth on the proxy card. The record date for stockholders entitled to vote at the Annual Meeting is the close of business on March 31, 2005 (the Record Date). The approximate date on which this Proxy Statement and the enclosed proxy are first being sent or given to stockholders is April 15, 2005.

VOTING PROCEDURES

The accompanying proxy card is designed to permit each stockholder of record at the Record Date to vote in the election of Class III directors and the adoption and approval of the Harte-Hanks, Inc. 2005 Omnibus Incentive Plan, as further described in this Proxy Statement. The proxy card provides space for a stockholder to:

(i) vote in favor of or to withhold voting for the nominees for Class III Directors;

(ii) vote for or against the proposal to adopt and approve the Harte-Hanks 2005 Omnibus Incentive Plan;

(iii) vote for or against any other proposal to be considered at the Annual Meeting; or

(iv) abstain from voting on any proposal other than the election of Class III directors if the stockholder chooses to do so.

The holders of a majority of all of the shares of Common Stock entitled to vote at the Annual Meeting, present in person or by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. If a quorum should not be present, the Annual Meeting may be adjourned from time to time until a quorum is obtained. Abstentions and broker non-votes are counted as present at the Annual Meeting for purposes of determining whether a quorum is present. A broker non-vote occurs when a nominee, such as a bank or a broker, holding shares for a beneficial owner, does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner with respect to that vote. Absent specific instructions from the beneficial owner of such shares, brokers are not empowered to vote the shares with respect to the approval of non-routine matters.

Under current New York Stock Exchange (NYSE) Rules, the approval and adoption of the Harte Hanks 2005 Omnibus Plan requires that both (1) a majority of our issued and outstanding shares cast a vote on the proposal, and (2) affirmative votes constitute at least a majority of the total votes cast. For this purpose, broker non-votes are not deemed to be votes cast, and therefore will have a negative effect on determining whether the first NYSE requirement has been met. Additionally, abstentions are deemed to be votes cast, but because they are not affirmative votes, they will have a negative effect on determining whether the second NYSE requirement has been met.

The election of Class III Directors will be decided by a plurality of the votes cast at the Annual Meeting. For that reason, abstentions and broker non-votes will not affect the outcome of the election of directors. Under current New York Stock Exchange Rules, the approval and adoption of the Harte-Hanks 2005 Omnibus Plan requires the affirmative vote of a majority of the votes cast, provided, that, the total votes cast on this proposal represent over 50% of all of the Common Stock entitled to vote. For that reason, broker non-votes will not affect the outcome of the approval and adoption of the Harte-Hanks 2005 Omnibus Incentive Plan, so long as over 50% of the outstanding shares of the Common Stock are voted on this proposal. Abstentions will be included in the vote total with the result that an abstention will have the same effect as a negative vote.

If you are not voting by telephone or the Internet, stockholders are urged to sign the enclosed proxy and return it promptly. When a signed card is returned with choices specified with respect to voting matters, the shares represented are voted by the proxies designated on the proxy card in accordance with the stockholder s instructions. The proxies for the stockholders are Larry Franklin and Houston H. Harte.

As of the Record Date, there were 84,571,818 shares of Common Stock outstanding, which were held by approximately 2,639 holders of record. Each owner of record on the Record Date is entitled to one vote for each share of Common Stock held.

The enclosed proxy is solicited on behalf of the Board of Directors of the Company. The cost of soliciting proxies in the accompanying form will be paid by the Company. Officers of the Company may solicit proxies by mail, telephone, Internet or fax. Upon request, the Company will reimburse brokers, dealers, banks and trustees, or their nominees for reasonable expenses incurred by them in forwarding proxy materials to beneficial owners of shares of the Common Stock.

MATTERS TO BE BROUGHT BEFORE THE MEETING

Proposal No. 1 Election of Class III Directors

The current number of members of the Harte-Hanks Board of Directors (the Board) is nine (9). The Board is divided into three classes, each of which serves for a three-year term. One class of directors is elected each year. The term of the Company s three Class III directors will expire at the Annual Meeting. The Class III directors elected in 2005 will serve for a term of three years, which expires at the Annual Meeting of Stockholders in 2008 or when their successors are elected and qualified. The election of directors will be decided by a plurality of the votes cast.

The nominees for Class III directors are Houston H. Harte, Richard M. Hochhauser and Judy C. Odom. Each nominee is a current member of the Board. The Board believes that each nominee will be available and able to serve as a director. If a nominee is unable to serve, the shares represented by all valid proxies will be voted for the election of such substitute as the Board may recommend, or the Board may reduce the number of directors to eliminate the vacancy consistent with the requirement to maintain nearly equal classes, or the Board may fill the vacancy at a later date after selecting an appropriate nominee.

Information with respect to the nominees is set forth in the section of this Proxy Statement entitled Management Directors and Executive Officers. The Company believes that the directors and officers of the Company currently intend to vote their shares in favor of each of the nominees for Class III Directors.

THE BOARD OF DIRECTORS URGES STOCKHOLDERS TO VOTE FOR

EACH OF THE NOMINEES FOR DIRECTOR SET FORTH ABOVE.

Proposal No. 2 Adoption and Approval of the Harte-Hanks Omnibus Incentive Plan

Harte-Hanks has for many years utilized stock incentives as part of its overall compensation program. The Board believes that stock options and stock-based incentives play an important role in attracting and retaining the services of outstanding personnel and in encouraging such persons to have a greater personal financial investment in Harte-Hanks. The Company s stockholders approved the Amended and Restated Harte-Hanks, Inc.

1991 Stock Option Plan in 1991 and it has been amended periodically, most recently in 2004, (as amended and restated, the 1991 Plan). The 1991 Plan permits the granting, either alone or in combination, of non-qualified stock options that do not qualify for beneficial treatment under the Internal Revenue Code of 1986, as amended (the Code), and incentive stock options under Section 422 of the Code (ISOs). Stock options permit the purchase of shares of Harte-Hanks by persons who are responsible for or contribute to the management, growth, success and profitability of Harte-Hanks and who are designated by the Compensation Committee of the Board that administers the 1991 Plan. Judy C. Odom, William K. Gayden and Christopher M. Harte are the current members of the Compensation Committee. In addition, Harte-Hanks allows the members of the Board to elect to receive some or all of their director fees in the form of shares of Harte-Hanks, Inc. Common Stock, par value $1.00 per share (Common Stock), under the Harte-Hanks, Inc. 1998 Director Stock Plan (the Directors Plan , and together with the 1991 Plan , being the Existing Plans).

As of March 31, 2005, under the 1991 Plan, options to purchase 8,043,063 shares of Common Stock were outstanding and 4,306,729 shares of Common Stock remained available for future option grants. As of March 31, 2005, under the Directors Plan, 36,960 shares of Common Stock had been issued, leaving 263,040 shares available for future issuance. Therefore, the total number of shares of Common Stock available for issuance under the Existing Plans as of March 31, 2005 was 4,569,769.

On April 3, 2005, the Board approved the Harte-Hanks 2005 Omnibus Incentive Plan (the 2005 Plan), under which 4,570,000 shares of Common Stock will be reserved for issuance. The 2005 Plan will not become effective unless stockholders approve it. The 2005 Plan is intended, in part, to replace the 1991 Plan and the Directors Plan. Upon stockholder approval of the 2005 Plan, the Board will cancel the approximately 4,500,000 shares that would have been available for grant under the Existing Plans. Existing awards granted under the 1991 Plan will continue to vest and/or be exercisable in accordance with their original terms and conditions. **Thus, as illustrated in the table below any addition of shares for issuance under the 2005 Plan in excess of those available under the Existing Plans will be negligible**.

Shares Available for Grant under Equity Compensation Plans of Harte-Hanks, Inc. (1)

(as of April 3, 2005)

	Prior to Approval of the 2005 Plan	Upon Approval of the 2005 Plan
1991 Plan	4,306,729	0
Directors Plan	263,040	0
2005 Plan	0	4,570,000
Total Available for Grant	4,569,769	4,570,000

(1) Excludes the 1994 Harte-Hanks, Inc. Employee Stock Purchase Plan (ESPP).

The Company believes that the directors and officers of the Company currently intend to vote their shares in favor of the adoption and approval of the 2005 Plan.

DESCRIPTION OF THE 2005 PLAN

The following is a description of the principal features of the 2005 Plan. This description is qualified in its entirety by reference to the full text of the 2005 Plan that is included as Annex A to this Proxy Statement.

General

Purposes. Principal purposes of the 2005 Plan include creating a plan that will allow the Board or its designee to:

- provide employees, directors and consultants selected for participation (the Participants) with added incentives to continue in service to Harte-Hanks,
- create in Participants a more direct interest in the future success of the operations of Harte-Hanks by relating incentive compensation to the achievement of long-term corporate economic objectives, and
- attract, retain and motivate Participants by providing them an equity investment in Harte-Hanks.

Types of Awards. Under the 2005 Plan, several types of awards (collectively, Awards) can be made including: non-qualified stock options and incentive stock options (collectively referred to as Stock Options), stock appreciation rights (SARs), restricted stock, restricted stock units, Common Stock, performance-based grants payable in cash or any of the above-listed equity Awards, or any other Award established pursuant to the 2005 Plan that may be granted under the 2005 Plan.

Stock Options: rights to purchase a specified number of shares of Common Stock at a specified price for a given term. Stock Options may be: (a) incentive stock options (ISOs), which are intended to meet the requirements of Section 422 of the Code, and as such, offer certain beneficial tax treatment to Participants as described below; and (b) non-qualified stock options, which do not meet the requirements of Section 422 of the Code.

Stock Appreciation Rights: rights to receive payment from Harte-Hanks equal to the difference between the Fair Market Value of one or more shares of Common Stock and the exercise price of the SAR. If awarded, SARs will be paid out in shares of Common Stock.

Restricted Stock: grants of Common Stock that are subject to substantial risk of forfeiture until certain conditions or restrictions on transferability lapse.

Restricted Stock Units: rights to receive payment on a future date from Harte-Hanks for the value of Common Stock in the form of Common Stock or cash.

Director Common Stock: grants of Common Stock to non-employee directors in lieu of cash compensation.

Dividend Equivalents: rights to receive the equivalent value (in cash or Common Stock) of dividends paid on Common Stock.

Performance Award: grants payable in cash, Common Stock or another form of Award based upon the achievement of specified performance targets.

Common Stock: grants of Common Stock that are not subject to transfer or forfeiture restrictions.

Administration. The 2005 Plan may be administered by the Board or a committee of the Board. The Compensation Committee, comprised entirely of non-employee directors, will administer the 2005 Plan. The Compensation Committee has broad powers to administer and interpret the 2005 Plan, including the authority to select the Participants, determine the amount and type of Awards to Participants, prescribe terms and conditions not otherwise specified by the 2005 Plan for each Award, and amend or modify such terms and conditions, including accelerating vesting and waiving forfeiture restrictions. The Board must administer the 2005 Plan with respect to any Awards to non-employee directors. The Compensation Committee may delegate some of its authority to one or more members of the Compensation Committee or officers of Harte-Hanks, Inc. Additionally, the Board has the right to terminate the 2005 Plan before its termination date. However, none of the above actions may adversely affect the rights or obligations of any Participant s outstanding Awards without that particular Participant s consent. Neither the Compensation Committee nor the Board has the authority to take any action that would constitute a repricing of Stock Options.

Eligibility and Participation. At its discretion, the Compensation Committee may grant Awards to employees, non-employee directors and consultants of Harte-Hanks, Inc. and its subsidiaries. As of the Record Date, there were approximately 7,100 individuals who would be eligible to receive Awards under the 2005 Plan. Although the number of individuals who will receive Awards under the 2005 Plan is not determinable, in 2004, the Compensation Committee awarded equity to approximately 320 employees under the 1991 Plan.

Future grants of Awards under the 2005 Plan are subject to the discretion of the Compensation Committee and thus, are not determinable at this time.

Calculation of Shares Granted and Available for Grant. Shares of Common Stock that are issued pursuant to the grant or exercise of Awards will reduce the number of shares remaining available for future issuance under the 2005 Plan. If an Award granted under the 2005 Plan expires or is terminated or forfeited, the shares underlying the Award will again be available for grant under the 2005 Plan. In addition, to the extent shares of Common Stock are used to pay the exercise price of any Stock Options or to satisfy tax withholding obligations, an equal number of shares will become available for issuance under the 2005 Plan. The 2005 Plan will reserve 4,570,000 shares of Common Stock for issuance. The maximum number of shares of Common Stock reserved for issuance under the 2005 Plan may be increased by approval of the Board and the stockholders.

Fair Market Value. For purposes of the 2005 Plan, the Fair Market Value of a share of Common Stock is equal to the closing price of a share of Common Stock on the last trading day prior to the date in question, except that for same-day sales of Stock Options, the Fair Market Value of the Common Stock at the time of exercise will be the price at which the Common Stock is sold. The Fair Market Value of the Common Stock on March 31, 2005, the Record Date, was $27.56.

Term, Amendment and Termination of the 2005 Plan. The 2005 Plan will expire 10 years from the date it is approved by the Company s stockholders, unless terminated by the Board before that date. Any Awards outstanding on that date will continue to remain outstanding in accordance with their respective terms. The 2005 Plan may be amended or discontinued by the Board at any time, unless stockholder approval is required or desirable under applicable law or regulation.

Transferability. Except as otherwise approved by the Compensation Committee or under a qualified domestic relations order from a court, no Award is assignable or transferable during the lifetime of the Participant, either voluntarily or involuntarily. In the event of a Participant s death, his or her rights and interests in an Award will be transferable by testamentary will or the laws of descent or distribution.

Stock Options and Stock Appreciation Rights

Grants. The Compensation Committee establishes the number of shares and the terms, including any applicable vesting periods, underlying Stock Options and SARs. The term of these Awards may not exceed 10 years, and in certain circumstances for ISOs, the term may be limited to five years. The exercise price for Stock Options and SARs cannot be less than the Fair Market Value on the date of grant, but the Compensation

Committee may establish an exercise price higher than the Fair Market Value.

Payment of Exercise Price. Payment for shares purchased upon exercise of a Stock Option must be made in full at the time of purchase. Payment may be made in cash, check, or other shares of Common Stock (with some restrictions). With the approval of Harte-Hanks, payment may also be made by broker-assisted same-day sales or by Harte-Hanks withholding enough Common Stock otherwise deliverable upon exercise to pay the exercise price (the value of the Common Stock being determined on the date of exercise). Upon exercising a stock option, a Participant must also pay any required tax withholding. Such tax withholding may be satisfied in cash or shares of Common Stock, as determined by Harte-Hanks.

Termination of Service. The vesting of Stock Options and SARs ends on the date service to Harte-Hanks ends. Generally, Participants have 90 days after termination to exercise vested Stock Options and SARs. If the termination is due to death or disability, the exercise period is extended to one year. If the Participant is terminated for cause or is in material breach of a legal obligation to Harte-Hanks, the exercise period for Stock Options and SARs ends on the date of termination. Different vesting and exercise periods may apply if approved by the Compensation Committee or are provided for in a written agreement between the Participant and Harte-Hanks.

Restricted Stock and Restricted Stock Units

Grants. The Compensation Committee establishes the number of shares and the terms, including any applicable vesting schedule, for restricted stock and restricted stock units. Restricted stock is issued as Common Stock that has voting and dividend rights, but is subject to forfeiture and transfer restrictions. Restricted stock units do not have voting or dividend rights, are not considered Common Stock issued and outstanding, and upon vesting may be paid out in Common Stock or cash as determined by the Compensation Committee.

Termination of Service. Generally, a Participant forfeits all unvested restricted stock and restricted stock units on the day of termination. Different forfeiture terms may apply if approved by the Compensation Committee or are provided for in a written agreement between the Participant and Harte-Hanks.

Performance Awards

A Performance Award entitles the Participant to a payout based upon achievement of certain performance criteria. The Compensation Committee establishes the exact performance criteria and the performance period applicable to the Performance Award. The Compensation Committee also determines whether the payout will be in cash, an equity-based Award or some combination of cash and equity Awards. Performance criteria include a number of measurable criteria that can be tied to the success of Harte-Hanks, including, but not limited to, net profit dollars, net profit growth, net revenue dollars, revenue growth, total shareholder return, cash flow, earnings or earnings per share, growth in earnings or earnings per share, stock price, return on equity or average stockholder s equity, total stockholder return, return on capital, return on assets or net assets, return on investment, revenue, income or net income, operating income or net operating income, operating profit or net operating profit, operating margin, return on operating revenue, market share, overhead or other expense reduction, credit rating, strategic plan development and implementation, succession plan development and implementation, customer satisfaction indicators and employee metrics. These criteria may be measured on an absolute basis or relative to a peer group or index and can be measured at the corporate or business unit level.

Director Common Stock

Under the 2005 Plan, non-employee directors may elect to receive all or a portion of their annual retainer and meeting fees in shares of Common Stock. The number of shares is determined by dividing: (a) the dollar amount of the portion of the retainer and meeting fees for the fiscal quarter that is to be paid in shares by (b) the Fair Market Value of one share of Common Stock as of the last day of such fiscal quarter, rounded up to the next full number of shares. Directors may elect to receive their compensation in Common Stock for a fiscal year period. As of the record date, four directors had elected to receive all or a portion of their 2005 compensation in the form of shares of Common Stock.

Other Awards

The Compensation Committee may also, under the 2005 Plan, grant equity-based Awards in lieu of cash bonus payments to Participants. The determination of the number of shares of Common Stock or other Awards that would be issued as a bonus payment will be determined using a reasonable valuation method selected by the Compensation Committee. The Compensation Committee may choose to grant dividend equivalents in conjunction with the grants of Awards. Dividend equivalents on these Awards will be converted to cash or additional shares at such time and by such formula as the Compensation Committee determines. Participants holding restricted stock, Common Stock equivalents, and Common Stock grants have the same dividend rights as other holders of common stock. The Compensation Committee, in its sole discretion, may establish other incentive compensation arrangements under the 2005 Plan pursuant to which Participants may acquire shares of Common Stock.

Federal Income Tax Consequences of Stock Options

The following description of U.S. federal income tax consequences to U.S. Participants and Harte-Hanks is based upon current statutes, regulations and interpretations. The description does not include foreign, state or local income tax consequences.

Incentive Stock Options. A Participant who receives an ISO will not recognize any taxable income at the time of grant of the ISO. The exercise of an ISO will not result in any federal income tax consequences to the Participant, except that a certain amount will be an adjustment item for alternative minimum tax purposes. In the event of a disposition of stock acquired upon the exercise of an ISO, the federal income tax consequences depend upon how long the Participant has held the shares. If the Participant does not dispose of the shares until the later of two years following the date of grant or one year following the date of exercise, the Participant will recognize a long-term capital gain or loss upon subsequent disposition of the stock. The amount of the long-term capital gain or loss will be equal to the difference between: (a) the amount realized on the disposition of the shares and (b) the exercise price at which shares were acquired. If the Participant does not satisfy the foregoing holding-period requirements, the Participant will be required to report as ordinary income, in the year of disposition, an amount equal to the excess of: (a) the Fair Market Value of the shares at the time of exercise of the ISO or, if less, the amount realized on the disposition of such shares, over (b) the exercise price for the shares.

Non-Qualified Stock Options. A Participant who receives non-qualified stock options will not recognize any taxable income at the time of grant. Upon exercise of the non-qualified stock options, a Participant will recognize ordinary income in an amount equal to the excess of: (a) the Fair Market Value of the shares at the time of exercise over (b) the exercise price for the shares. In the case of Participants who are employees of the Company, any ordinary income so recognized will be considered wages subject to applicable tax withholding.

Other Awards. Awards of SARs, restricted stock units, certain other Awards and dividend equivalents may, in some cases, result in the deferral of compensation that is subject to the requirements of Section 409A of the Code. The U.S. Treasury Department and Internal Revenue Service have only recently issued guidance regarding the impact of Section 409A on the taxation of these types of Awards. Generally, to the extent that deferrals of these Awards fail to meet certain requirements under Section 409A, such Awards will be subject to immediate taxation and tax penalties in the year they vest unless the requirements of Section 409A are met. It is the intent of the Company that Awards under the 2005 Plan will be structured and administered in a manner that complies with the requirements of Section 409A.

Deductions for Harte-Hanks. Subject to the deduction limitation under Section 162(m) of the Code, Harte-Hanks generally will be entitled to a compensation expense deduction in the same amount as any ordinary income recognized by a Participant in connection with the grant, vesting, exercise or payout of Stock Options.

Section 162(m) Limitations

Section 162(m) generally disallows a tax deduction to public companies for compensation in excess of $1,000,000 paid to the CEO or any of the other four most highly compensated officers. Certain performance-based compensation is exempt from the deduction limit if it meets the requirements of Section 162(m). One of these requirements is that there is a limit to the number of shares granted to any one individual in a given fiscal year. Accordingly, the 2005 Plan has a limit of 1,500,000 shares subject to equity Awards that can be granted to any individual per fiscal year. The maximum amount payable for a performance-based cash award in any fiscal year may not exceed $2,500,000 or 200% of annual base salary. Stockholder approval of the 2005 Plan will permit any Awards granted under the 2005 Plan to qualify for deductibility to the extent that the compensation is recognized by the Participant as ordinary income and provided that the Awards meet the Section 162(m) performance-based requirements.

Change in Capital Structure; Change in Control

If Harte-Hanks declares a stock split or dividend, or if there is another change in Harte-Hanks capital structure that would result in the increase or decrease of the benefits under the 2005 Plan, then the Compensation Committee will, as it determines, proportionally adjust: (a) the number of shares then available for grant; (b) the number of shares subject to outstanding Awards; and (c) the exercise prices of outstanding Awards. No adjustment may be made if it results in a repricing of a stock option or SAR.

Except to the extent otherwise provided in any agreement between Harte-Hanks and a Participant, upon a Change of Control or Potential Change of Control (each as defined in the 2005 Plan), the Board, in its discretion and on terms it deems appropriate, with respect to any Award, may:

cancel the Award in exchange for an amount of cash equal to the amount that could have been attained upon the exercise of such Award or realization of the Participant s rights had such Award been currently exercisable or payable or fully vested (including an amount equal to zero for Awards with respect to which no cash could have been so attained or realized);

provide that the Award cannot vest, be exercised or become payable after such event;

provide that such Award shall be vested, exercisable and nonforfeitable as to all shares covered thereby and that all restrictions with respect thereto shall lapse, notwithstanding anything to the contrary in the 2005 Plan or an Award Agreement;

provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; and

make adjustments in the number and type of shares of Common Stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding restricted stock, restricted stock units, and in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards and options, rights and awards that may be granted in the future; provided that no such adjustment shall be effected if it results in a repricing of a Stock Option or SAR.

THE SUMMARY OF THE FEDERAL INCOME TAX CONSEQUENCES UPON THE PARTICIPANTS IN THE 2005 PLAN CONTAINED IN THIS PROXY STATEMENT DOES NOT PURPORT TO BE COMPLETE.

THE BOARD OF DIRECTORS URGES STOCKHOLDERS TO VOTE FOR

ADOPTION AND APPROVAL OF THE HARTE-HANKS 2005 OMNIBUS INCENTIVE PLAN.

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS

The following table sets forth, as of March 31, 2005, the beneficial ownership of each current director, each nominee for director, each executive officer included in the Summary Compensation Table, the directors and executive officers as a group, and each stockholder known to management to own beneficially more than 5% of the Common Stock. Except as noted below, each named person has sole voting power and dispositive power with respect to the shares shown.

Name and Address of Beneficial Owner (1)	Number of Shares of Common Stock	Percent of Class
Larry Franklin (2)	11,950,476	14.1%
Houston H. Harte	11,441,994	13.5%
Ariel Capital Management, Inc. (3)	10,034,881	11.9%
David L. Copeland (4)	9,656,058	11.4%
Shelton Family Foundation	5,085,000	6.0%
Christopher M. Harte (5)	1,879,830	2.2%
Richard M. Hochhauser (6)	1,233,675	1.4%
Gary J. Skidmore (7)	289,571	*
Peter E. Gorman (8)	192,090	*
Dean H. Blythe (9)	42,500	*
William K. Gayden (10)	40,571	*
Dr. Peter T. Flawn (11)	11,718	*
William F. Farley	7,468	*
Judy C. Odom	3,523	*
All Executive Officers and Directors as a Group (18 persons) (12)	28,535,716	33.0%

* Less than 1%.

(1) The address of Ariel Capital Management, Inc. is 200 E. Randolph Drive, Suite 2900, Chicago, Illinois 60601. The address of the Shelton Family Foundation is 273 Walnut Street, Abilene, Texas 79601. The address of each other beneficial owner is c/o Harte-Hanks, Inc., 200 Concord Plaza Drive, Suite 800, San Antonio, Texas 78216.

(2) Includes 415,500 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 3,408,358 shares owned by seven trusts for which Mr. Franklin serves as co-trustee and holds shared voting and dispositive power and to which he disclaims beneficial ownership; 110,000 shares held in trust for his children; 5,085,000 shares owned by the Shelton Family Foundation of which he is one of eight directors and to which he disclaims beneficial ownership; and, 61,405 shares owned by the Franklin Family Foundation of which he is one of four directors and to which he disclaims beneficial ownership.

(3) Represents shares held by investment advisory clients of Ariel Capital Management, Inc. (ACM), no one of which to the knowledge of ACM owns more than 5% of the class. Includes 4,761,185 shares to which ACM has sole voting power and 6,300,932 shares to which ACM has sole dispositive power. Information relating to this stockholder is based on the stockholder s Schedule 13G, filed with the Securities and Exchange Commission on February 14, 2005.

(4) Includes 10,900 shares held as custodian for his children; 15,500 shares held as custodian for unrelated minors; 4,277,901 shares that are owned by 28 trusts for which Mr. Copeland serves as trustee or co-trustee and to which he disclaims beneficial ownership; 200,500 shares held by a limited partnership of which he is an officer of the general partner but in which shares he has no pecuniary interest and to which shares he disclaims beneficial ownership; 5,085,000 shares owned by the Shelton Family Foundation, of which he is one of eight directors and to which he disclaims beneficial ownership; and 1,250 shares that may be acquired upon the exercise of options exercisable within the next 60 days.

(5) Includes 300 shares held as custodian for his step-children and child, 1,125,000 shares owned by two trusts for which Mr. Harte serves as co-trustee and in which the trustees have shared voting and dispositive power and to which he disclaims beneficial ownership; 125,001

shares owned by two trusts for the benefit of his child for which Mr. Harte serves as trustee; 450 shares owned indirectly by Mr. Harte s wife; 590,458 shares held by Spicewood Family Partners, Ltd., of which Mr. Harte is the sole general partner with exclusive voting and dispositive power over all the partnership s shares; and 1,250 shares that may be acquired upon the exercise of options exercisable within the next 60 days.

(6) Includes 979,000 shares that may be acquired upon the exercise of options exercisable within the next 60 days.

(7) Includes 250,625 shares that may be acquired upon the exercise of options exercisable within the next 60 days and 2,382 shares held in trust for his children.

(8) Includes 177,450 shares that may be acquired upon the exercise of options exercisable within the next 60 days.

(9) All of such shares may be acquired upon the exercise of options exercisable within the next 60 days.

(10) Includes 1,250 shares that may be acquired upon the exercise of options exercisable within the next 60 days.

(11) Includes 1,250 shares that may be acquired upon the exercise of options exercisable within the next 60 days.

(12) Includes 2,157,175 shares that may be acquired upon the exercise of options exercisable within the next 60 days.

MANAGEMENT

Directors and Executive Officers

The following table sets forth certain information about the current directors and executive officers of the Company. Each of the executive officers has held his or her position with the Company, or a similar position with the Company, for at least the past five years, except as noted below.

David L. Copeland	49	Director (Class I)
William F. Farley	61	Director (Class II)
Dr. Peter T. Flawn	79	Director (Class I)
Larry Franklin	62	Director (Class II); Chairman
William K. Gayden	63	Director (Class II)
Christopher M. Harte	57	Director (Class I)
Houston H. Harte	78	Director Nominee (Class III); Vice Chairman
Richard M. Hochhauser	60	Director Nominee (Class III); President and Chief Executive Officer
Judy C. Odom	52	Director Nominee (Class III)
Dean H. Blythe	46	Senior Vice President and Chief Financial Officer
Kathy L. Calta	47	Senior Vice President Direct Marketing
James S. Davis	57	Senior Vice President Direct Marketing
William A. Goldberg	48	Senior Vice President Direct Marketing
Peter E. Gorman	56	Senior Vice President Shoppers
Gary J. Skidmore	50	Senior Vice President Direct Marketing
Paul S. Hacker	41	Vice President Legal and Secretary
Jessica M. Huff	44	Vice President Finance, Controller and Chief Accounting Officer

Class III directors are to be elected at the Annual Meeting. Messrs. H. Harte and Hochhauser and Ms. Odom are nominees for re-election as Class III directors. The term of Class I directors expires at the 2006 Annual Meeting of Stockholders, and the term of Class II directors expires at the 2007 Annual Meeting of Stockholders.

David L. Copeland has served as a director of the Company since 1996. He has been employed by SIPCO, Inc., the management and investment company for the Andrew B. Shelton family, since 1980 and currently serves as its president. He also serves as a director of First Financial Bankshares, Inc., a financial holding company. Mr. Copeland is Chairman of the Audit Committee of the Board of Directors.

William F. Farley has served as a director of the Company since October 2003. He also serves as a director of Wilsons The Leather Experts Inc., a leading retailer of leather apparel and accessories. He served as Chairman and Chief Executive Officer of Science, Inc., a medical device company, from 2000 to 2002. He also served as President and Chief Executive Officer of Kinnard Investments, a financial services holding company, from 1997 to 2000. From 1990 to 1996, he served as Vice Chairman of U.S. Bancorp, a financial services holding company.

Dr. Peter T. Flawn has served as a director of the Company since 1985, and is President Emeritus of the University of Texas at Austin.

Larry Franklin has served as a director of the Company since 1974. Mr. Franklin was Chief Executive Officer of the Company from 1991 until April 2002. Mr. Franklin also serves as a director of John Wiley & Sons, Inc., a publishing company.

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

Christopher M. Harte has served as a director of the Company since 1993. He is a private investor and served as president of the Portland Press Herald and Maine Sunday Telegram for approximately two years beginning June 1992. Prior to becoming president of the Portland newspapers, Mr. Harte spent nine years with Knight-Ridder Newspapers, during which time he served as president and publisher of two newspapers and in other positions. He also serves as a director of Geokinetics, Inc., a provider of three-dimensional seismic acquisition services to U.S. oil and gas businesses, and Crown Resources, Inc., a minerals mining company. Mr. Harte is the nephew of Houston H. Harte.

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

Richard M. Hochhauser has served as Chief Executive Officer of the Company since April 2002 and as a director since 1996. Mr. Hochhauser served as Chief Operating Officer of the Company from January 1998 until his appointment as Chief Executive Officer in April 2002. He also has served as President of Harte-Hanks Direct Marketing since 1987 and has held numerous other positions since joining the Company in 1975

Judy C. Odom has served as a director of the Company since September 2003. She also serves on the Board of Leggett & Platt, Incorporated, a diversified manufacturing company, since November, 2002 and serves on the Board of Storage Technology Corporation, a provider of data storage hardware and software products and services, since November, 2003. From 1985 until 2002 she held numerous positions, most recently Chief Executive Officer and Chairman of the Board, at Software Spectrum, Inc., a global business to business software services company, which she co-founded in 1983.

Dean H. Blythe has served as Senior Vice President and Chief Financial Officer of the Company since June, 2003. From November 2001 until February 2004 he served as Vice President Legal and Secretary of the Company. Prior to joining the Company, he served as Managing Director of TDF Ventures LLC, an investment and transaction advisory firm he founded in 2000. During 2000 he was also Senior Vice President Corporate Development of Concero, Inc., an information technology consulting firm, and from 1994 to 2000 he was Senior Vice President Corporate Development, Secretary & General Counsel of Hearst-Argyle Television, Inc., an owner and operator of television stations.

Kathy L. Calta has served as Senior Vice President Direct Marketing of the Company since March 2004, and previously served as Vice President Direct Marketing of the Company. She has held various sales and management positions with the Company since 1986.

James S. Davis has served as Senior Vice President Direct Marketing of the Company since March, 2004, and previously served as Vice President Direct Marketing of the Company. He has held various sales and management positions with the Company since 1993.

William A. Goldberg has served as Senior Vice President Direct Marketing of the Company since March 2004 and previously served as Vice President Direct Marketing of the Company. He has been with the Company since 1978.

Peter E. Gorman has served as Senior Vice President Shoppers of the Company since 1996.

Gary J. Skidmore has served as Senior Vice President Direct Marketing of the Company since 2000, and prior to that time was Vice President Direct Marketing. He has been with the Company since 1982.

Paul S. Hacker has served as Vice President Legal and Secretary of the Company since February 2004. From April 2002 until February 2004 he was a partner with the global law firm of Baker Botts LLP. From January 1998 until February 2002 he was with the national law firm of Gray Cary LLP where he was a partner.

Jessica M. Huff has served as Controller and Chief Accounting Officer of the Company since 1996.

CORPORATE GOVERNANCE

We believe that good corporate governance helps to ensure that the Company is managed for the long-term benefit of our stockholders. During the past year, we continued to review our corporate governance policies and practices, the recently adopted and proposed corporate governance rules and regulations of the Securities and Exchange Commission (the SEC), and the revised corporate governance standards of the New York Stock Exchange (the NYSE), the stock exchange on which our Common Stock is traded.

You can access and print the charters of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, as well as our Corporate Governance Principles, Code of Ethics and other Company polices and procedures required by applicable law or regulation at our website at www.harte-hanks.com under the heading Corporate Governance. Additionally, you can request copies of any of these documents by writing to our Corporate Secretary at the following address:

Harte-Hanks, Inc.

Concord Plaza Drive,

Suite 800,

San Antonio, Texas 78216

Attention: Corporate Secretary

Independence of Directors

The Board has determined that each of Messrs. David L. Copeland, William F. Farley, Peter T. Flawn, William K. Gayden, Christopher M. Harte and Ms. Judy C. Odom qualify as independent directors in accordance with the rules of the NYSE. In determining independence, each year the Board affirmatively determines, among other items, whether the directors have no material relationship with the Company or any of its subsidiaries pursuant to the rules of the NYSE. When assessing the materiality of a director s relationship with the Company, if any, the Board considers all relevant facts and circumstances, not merely from the director s standpoint, but from that of the persons or organizations with which the director has an affiliation, and the frequency or regularity of the services, whether the services are being carried out at arm s length in the ordinary course of business and whether the services are being provided substantially on the same terms to the Company as those prevailing at the time from unrelated parties for comparable transactions. Material relationships can include commercial, banking, industrial, consulting, legal, accounting, charitable and familial relationships.

Meeting Attendance and Committees of the Board

The Board held five meetings during 2004. Each member of the Board participated in at least 75% of all Board meetings and all Board committee meetings of which he or she was a member that were held during the period that he or she served as a director, committee member or both. Executive sessions of non-management directors are held regularly at the end of each regular Board meeting to consider other issues that they may determine from time to time without the presence of any member of management. The Chairman of the Board presides at these meetings. The Company does not have a formal policy regarding director attendance at the annual meeting of stockholders, but all directors are encouraged to attend. All directors attended the 2004 Annual Meeting of Stockholders.

The Board has established the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The functions of these committees and their current members are described below.

Audit Committee. The Audit Committee currently consists of David L. Copeland (Chairman), William F. Farley and Dr. Peter T. Flawn. The Board has determined that each member of the Audit Committee meets the independence requirements and the financial literacy requirements under applicable federal securities laws and the rules of the NYSE. The Board has determined that each of Messrs. Copeland and Farley meet the criteria for audit committee financial expert as defined by applicable federal securities rules. The Report of the Audit Committee, which is set forth below on pages 24 and 25, more fully describes the activities and responsibilities of the Audit Committee. A copy of the Audit Committee Charter is available on the Company s website at www.harte-hanks.com under the heading Corporate Governance. During 2004, the Audit Committee met eight times.

Compensation Committee. The Compensation Committee currently consists of Judy C. Odom (Chairman), William K. Gayden and Christopher M. Harte. The Board has determined that each member of the Compensation Committee meets the independence requirements of the rules of the NYSE, and each is an outside director in accordance with Section 162(m) of Code. The Report of the Compensation Committee on Executive Compensation, which is set forth below on pages 20-22, more fully describes the activities and responsibilities of the Compensation Committee. A copy of the Compensation Committee Charter is available on the Company s website at www.harte-hanks.com under the heading Corporate Governance. During 2004, the Compensation Committee met three times.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee currently consists of Christopher M. Harte (Chairman), Dr. Peter T. Flawn and William K. Gayden. The Board has determined that each member of the Nominating and Corporate Governance Committee satisfies the independence requirements of the rules of the NYSE. The primary functions of the Nominating and Corporate Governance Committee are to: (a) develop, recommend to the Board, implement and maintain the Company s corporate governance principles and policies, (b) identify, screen and recruit, consistent with criteria approved by the Board, qualified individuals to become Board members, (c) recommend the slate of director nominees to be elected at the next annual meeting of stockholders, (d) assist the Board in determining the appropriate size, function, operation and composition of the Board and its committees and (e) oversee the evaluation of the Board and management. A copy of the Nominating and Governance Committee Charter is available on the Company s website at www.harte-hanks.com under the heading Corporate Governance. In addition the Company s Process for Shareholder Communication with the Board, described immediately below, and the Company s Code of Ethics are available on the Company s website at www.harte-hanks.com under the heading Corporate Governance. During 2004, the Nominating and Corporate Governance Committee met once.

Director Nomination Process

The Nominating and Corporate Governance Committee identifies suitable candidates for the Board and recommends the slate of nominees to the Board. Candidates are selected based upon certain criteria including the individual s background, experience, expertise, financial acumen and diversity. The Nominating and Corporate Governance Committee considers suggestions from many sources, including stockholders, regarding possible candidates for director. Stockholders may submit director candidates to the Company s Corporate Secretary at the following address: 200 Concord Plaza Drive, Suite 800, San Antonio, Texas, 78216. Any director candidates submitted by a stockholder will be evaluated in the same manner as other director candidates. All such submissions should include the appropriate biographical information as provided in the Company s bylaws, as well as adhere to the advance notice provisions of the Company s bylaws, which are summarized under Other Matters on pages 26 and 27. The Nominating and Corporate Governance Committee may use the services of third parties to identify and evaluate potential director nominees for the Board.

Communications with Directors

Shareholders may communicate with the Board, Board committees, individual non-management directors or the non-management directors as a group by writing to Board of Directors Shareholder Communication, Harte-Hanks, Inc., P.O. Box 1767, San Antonio, Texas 78296. The Company s independent directors have instructed the Chairman of the Nominating and Governance Committee, currently Christopher M. Harte, to collect and distribute all such communications to the intended recipient(s), assuming he reasonably determines in good faith that such communications do not relate to an improper or irrelevant topic.

Code of Ethics

Harte-Hanks has adopted a Code of Ethics for directors, officers (including Harte-Hanks principal executive officer and principal financial officer) and employees which is available on Harte-Hanks website at www.harte-hanks.com, under the heading Corporate Governance. Additionally, should there be any amendments to, or waivers from, a provision of the Code of Ethics, Harte-Hanks will immediately post such information on its website.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires each director, officer and individual beneficially owning more than 10% of the Common Stock of the Company to file with the SEC reports of security ownership and reports on subsequent changes in its ownership of the Company s securities. Based solely on a review of copies of such reports, the Company believes all required Section 16(a) reports were timely filed and correctly made by reporting persons during 2004, except for the following: Dean H. Blythe did not timely file one report reporting one reportable transaction; Kathy Calta did not timely file the beginning of her status as a reporting person under Section 16(a) and did not timely file one other report reporting one reportable transaction; David C. Copeland did not timely file one report reporting one reportable transaction; Jim Davis did not timely file the beginning of his status as a reporting person under Section 16(a) and did not timely file two other reports reporting an aggregate of two reportable transactions; William T. Farley did not timely file one report reporting one reportable transaction; Peter T. Flawn did not timely file one report reporting one reportable transaction; William K. Gayden did not timely file one report reporting one reportable transaction; William A. Goldberg did not timely file one report reporting one reportable transaction; Peter E. Gorman did not timely file one report reporting one reportable transaction; Christopher M. Harte did not timely file one report reporting one reportable transaction; Richard H. Hochhauser did not timely file two reports reporting an aggregate of three reportable transactions; Jessica C. Huff did not timely file two reports reporting an aggregate of three reportable transactions; Judy Odom did not timely file one report reporting one reportable transaction; and Gary Skidmore did not timely file two reports reporting an aggregate of two reportable transaction.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On April 26, 2004, the Company purchased 744,000 shares of its Common Stock for $24.00 per share ($0.24 below the closing price per share of the Company s Common Stock on April 26, 2004) from two trusts and a private foundation. Mr. Larry Franklin, the Chairman of the Company s Board, and Mr. David L. Copeland, the Chairman of the Company s Audit Committee, serve as co-trustees on each of the trusts and are board members of the private foundation. Each of Messrs. Franklin and Copeland disclaim beneficial ownership of such shares.

On April 28, 2004, the Company purchased 100,000 shares of its Common Stock for $24.00 per share (the closing price per share of the Company s Common Stock on April 28, 2004) from Mr. Houston H. Harte. Mr. Harte is a member of the Company s Board of Directors.

On August 11, 2004, the Company purchased 100,000 shares of its Common Stock for $24.00 per share (the closing price per share of the Company s Common Stock on August 10, 2004) from Mr. Houston H. Harte. Mr. Harte is a member of the Company s Board of Directors.

On September 15, 2004, the Company purchased 100,000 shares of its Common Stock for $24.49 per share (the closing price per share of the Company s Common Stock on September 15, 2004) from Mr. Houston H. Harte. Mr. Harte is a member of the Company s Board of Directors.

15

EXECUTIVE COMPENSATION AND OTHER INFORMATION

Summary Compensation Table

The following table sets forth certain information regarding compensation earned during each of the last three years by the Chief Executive Officer and each of the Company s next four most highly compensated executive officers (based on total annual salary and bonus earned during 2004).

		Annual Compensation		Long Term Compensation Awards	
Name and Principal Position	Year	Salary	Bonus(1)	Options Granted	All Other Compensation(2)
Richard M. Hochhauser					
President and	2004	$ 762,500	$ 961,484	125,000	$ 18,103
	2003	693,750	124,609		17,903
Chief Executive Officer	2002	582,500	78,000	325,000	12,307
Peter E. Gorman					
Senior Vice President; President,	2004	$ 365,000	$ 251,166	50,000	$ 8,200
	2003	346,231	165,375		8,000
Harte-Hanks Shoppers	2002	326,200	191,520	105,000	8,000
Larry Franklin	2004	$ 600,000	$		$ 16,667
	2003	615,200			18,440
Chairman	2002	674,918	58,825		18,300
Gary J. Skidmore					
Senior Vice President	2004	$ 330,000	$ 225,225	40,000	$ 8,200
	2003	316,250	21,600		8,000
Direct Marketing	2002	310,667	4,800	40,000	8,000
Dean H. Blythe					
Senior Vice President	2004	$ 312,500	$ 241,922	35,000	$ 8,200
	2003	269,597	24,922	50,000	
Chief Financial Officer	2002	220,000	15,730	20,000	

(1) Bonus amounts are inclusive of payments received under the existing incentive compensation plan. Larry Franklin has elected to defer $574,195, $595,532 and $593,993 of the total compensation payable to him in 2004, 2003 and 2002, respectively, in accordance with the Company s deferred compensation plan.

(2) Consisted of (a) matching contributions made by the Company on behalf of the respective individual under the Company s 401(k) plan, (b) $9,903, $9,903 and $4,302 related to premiums paid annually by the Company on policies insuring the life of Richard M. Hochhauser in 2004, 2003 and 2002, respectively, and (c) $8,467, $10,440 and $10,300 related to premiums paid annually by

the Company on policies insuring the life of Larry Franklin in 2004, 2003 and 2002, respectively.

Option Grants During 2004

The following table sets forth information regarding stock options to purchase shares of Common Stock granted during 2004 to the individuals named in the Summary Compensation Table above. The Company did not grant any SARS during the 2004 fiscal year.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options(1)	% of Total Options Granted to Employees in Fiscal Year 2004	Exercise Price ($/share)	Expiration Date	5%(2)	10%(2)
Richard M. Hochhauser	125,000	9.9	$ 22.03	02/01/2014	$ 1,731,819	$ 4,388,768
Peter E. Gorman	50,000	3.9	22.03	02/01/2014	692,727	1,755,507
Larry Franklin						
Gary J. Skidmore	20,000	1.6	22.03	02/01/2014	277,091	702,203
	20,000	1.6	24.42	04/22/2014	307,152	778,384
Dean H. Blythe	35,000	2.8	22.03	02/01/2014	484,909	1,228,855

(1) The non-qualified stock options described in the table above were granted under the Harte-Hanks, Inc. Amended and Restated 1991 Stock Option Plan (the 1991 Plan). The exercise price is equal to the fair market value per share of the Common Stock on the grant date, as defined in the 1991 Plan. The stock options vest in equal increments (25% per year) on each of the second, third, fourth and fifth anniversary of the grant date, and expire on the tenth anniversary of the date of grant. Vesting is accelerated upon the occurrence of certain events. (See Severance Agreements below).

(2) The amounts in these columns are the result of calculations at the 5% and 10% annual rates set by the SEC and are not intended to forecast possible appreciation, if any, of the Company s stock price.

The following table sets forth certain information concerning option exercises during 2004 and unexercised options held at December 31, 2004 by the individuals named in the Summary Compensation Table.

			Number of Securities Underlying Unexercised Options at December 31, 2004		Value of Unexercised In-the-Money Options at December 31, 2004(1)	
Name	Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Richard M. Hochhauser	18,000	$ 387,320	924,625	485,375	$ 14,593,492	3,804,746
Peter E. Gorman	60,000	929,550	139,950	165,350	1,609,113	1,286,880
Larry Franklin	300,000	5,114,500	359,250	107,250	4,492,596	1,423,574
Gary J. Skidmore	12,390	236,397	247,010	156,025	2,877,408	1,096,634
Dean H. Blythe			42,500	137,500	423,650	962,700

(1) The value is the amount by which the market value of the underlying stock at December 31, 2004 ($25.98) exceeds the aggregate exercise prices of the options.

Equity Compensation Plan Information

The following table sets forth certain information as of December 31, 2004 concerning securities authorized for issuance under equity compensation plans approved by the Company s stockholders. The Company does not have any equity compensation plans that have not been approved by the Company s stockholders.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans**
Equity compensation plans approved by stockholders	7,228,685(1)	$ 16.01	8,445,419(2)
Equity Compensation Plans not approved by stockholders	N/A	N/A	N/A

(1) Options issued under the 1991 Plan.

(2) Includes 264,729, 2,826,290 and 5,354,400 shares available under the Directors Stock Plan, the 1994 Employee Stock Purchase Plan and the 1991 Plan, respectively.

Pension Plans

The Company sponsors a defined benefit pension plan qualified under Section 401 of the Code (the Defined Benefit Plan). Also, the Company has established an unfunded, non-qualified pension restoration plan, which became effective on January 1, 1994 and was amended and restated on January 1, 2000 (the Restoration Plan). The Defined Benefit Plan was frozen as of December 31, 1998, and no further benefits will accrue under that plan. In addition, the Code places certain limitations on the amount of pension benefits that may be paid under qualified plans. Any benefits payable to participants in excess of amounts permitted under the Code will be paid under the Restoration Plan.

The annual pension benefit under the Restoration Plan and the Defined Benefit Plan, taken together, is largely determined by the number of years of employment multiplied by a percentage of the participant s final average earnings (earnings during the highest five consecutive years). Participation in the Restoration Plan is limited to those employees of Harte-Hanks who are designated by the Board as eligible. All benefits payable under the Restoration Plan are to be paid from the general assets of the Company, but the Company is not required to set aside any funds to discharge its obligations under the Restoration Plan.

The table below may be used to calculate the approximate annual benefits payable at retirement at age 65 under the Company s Defined Benefit Plan and Restoration Plan to individuals in specified remuneration and years-of-service classifications. The benefits are not subject to any reduction for social security benefits or other offset amounts.

	Years of Credited Service				
Highest 5 Year Average Remuneration	**15**	**20**	**25**	**30**	**35**
$150,000	$ 34,090	$ 45,453	$ 56,817	$ 68,180	$ 79,543
250,000	57,127	76,170	95,212	114,254	133,297
350,000	81,877	109,170	136,462	163,754	191,047
450,000	106,627	142,170	177,712	213,254	248,797
550,000	131,377	175,170	218,962	262,754	306,547
650,000	156,127	208,170	260,212	312,254	364,297
750,000	180,877	241,170	301,462	361,754	422,047
850,000	205,627	274,170	342,712	411,254	479,797
950,000	230,377	307,170	383,962	460,754	537,547

The compensation included in the Summary Compensation Table under salary and bonuses qualifies as remuneration for purposes of the Defined Benefit Plan and the Restoration Plan, except that there are limits on the amounts of bonuses taken into consideration under the Restoration Plan. For purposes of the plans, the officers named in the Summary Compensation Table have the following years of service:

Mr. Franklin: 33 years;

Mr. Hochhauser: 29 years;

Mr. Gorman: 24 years;

Mr. Skidmore 10 years; and

Mr. Blythe: 3 years.

Compensation of Directors

Annual director s fees have been set at $50,000, and directors also receive $2,000 for each Board meeting attended. The chairs of the Audit Committee and the Compensation Committee also receive annual fees of $5,000 and $3,000, respectively. Under the Harte-Hanks, Inc. 1998 Director Stock Plan, non-employee directors may elect to receive all or a portion of the cash compensation otherwise payable for such director s services in Common Stock based upon fair market value. During 2004, David L. Copeland, William F. Farley, Dr. Peter T. Flawn, William K. Gayden, Christopher M. Harte, and Judy C. Odom received director s fees in cash or in stock of $64,583, $60,000, $60,417, $60,000, $60,000, and $62,750, respectively. In addition, independent directors are granted stock options. Each independent director receives an initial grant of non-statutory stock options exercisable for 5,000 shares of Common Stock, and an annual grant each year thereafter, all such options vesting in equal 25% installments on the second, third, fourth and fifth anniversary of the grant. In 2004, each of the independent directors received non-statutory stock options exercisable upon vesting for 4,200 shares of Common Stock.

Severance Agreements

The Company has entered into a severance agreement with Richard Hochhauser. If (i) Mr. Hochhauser is terminated from his position as Chief Executive Officer of the Company other than for cause (ii) Mr. Hochhauser terminates his employment after specified adverse actions are taken by the Company, or (iii) there is a change in control of the Company, then in any of such events Mr. Hochhauser will be entitled to severance compensation in a lump sum cash amount equal to 200% of the sum of (A) his annual base salary in effect just prior to such event, plus (B) the average of his bonus or incentive compensation for the two fiscal years preceding such event. In addition to the cash compensation, the Company will continue to provide certain benefits for a two-year period and all options previously granted to Mr. Hochhauser will immediately vest and become fully exercisable. As used in the severance agreement, cause means that the executive committed an intentional act of fraud, material damage to Harte-Hanks property or wrongful disclosure of Harte-Hanks secret processes. Change in control means: (i) the Company is merged, reorganized or sells substantially all of its assets and after such transaction less than 60% of the combined voting power of the surviving corporation is received in exchange for securities of Harte-Hanks, or (ii) any person has become a beneficial owner of securities of Harte-Hanks, which when added to any securities already owned by such person would represent in the aggregate 30% or more of the combined voting power of the then outstanding securities of Harte-Hanks.

The Company has also entered into severance agreements with each of its other executive officers named in the Summary Compensation Table above, as well as each of its Vice Presidents. If after a change in control of the Company, any of its Senior Vice Presidents is terminated other than for cause, or elects to terminate his or her employment under specified circumstances, the executive will be entitled to severance compensation in a lump sum cash amount equal to 200% (each Vice President is entitled to severance compensation equal to 100%) of the sum of (A) his or her annual base salary in effect immediately prior to the change in control, plus (B) the average of his or her bonus or incentive compensation for the two fiscal years preceding the change in control. In addition, a terminated executive will receive a cash payment sufficient to cover health insurance premiums for a period of 18 months. Upon a change in control, all options (50% of such options for each Vice President) previously granted to the executive will immediately vest and become fully exercisable. Under limited circumstances certain of such executives may be entitled to the foregoing benefits upon termination of employment before a change in control occurs. As used in these severance agreements, the terms cause and change in control have the same meanings as used in Mr. Hochhauser s severance agreement.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

Compensation Governance

The Compensation Committee is directly responsible for

- reviewing and approving corporate goals and objectives relevant to the Chief Executive Officer s (CEO) compensation,
- evaluating the CEO s performance in light of those goals and objectives, and either as a committee or together with the other independent directors (as directed by the Board), determining and approving the CEO s compensation level based on this evaluation;
- making recommendations to the Board with respect to non-CEO executive compensation, incentive compensation plans and equity-based plans; and
- producing a compensation committee report on executive compensation as required by the Securities and Exchange Commission (the Commission).

Compensation Philosophy

The executive compensation programs of Harte-Hanks, Inc. are designed to attract, motivate and retain high performing executives critical to the Company s long-term success and the creation of stockholder value. Our fundamental philosophy is to link closely our executives compensation with the achievement of annual and long-term performance goals. We believe that compensation decisions are complex and best made after a deliberate review of Company performance and industry compensation levels. We recommend compensation awards that are based upon Company, business unit and individual performance and that are designed to motivate our executives to achieve strategic business objectives and to continue to perform at the highest levels in the future. We include a significant equity component in our total compensation recommendations because we believe that equity-based compensation aligns the long-term interests of employees with those of stockholders.

During 2004, we directed the Company to take a fresh look at its executive compensation practices, with a focus on policies relating to executive compensation. Our purpose was to confirm that the Company s executive compensation policies remain aligned with the goal of enhancing stockholder value through programs that attract, motivate and retain key executives. We selected and engaged a third party consultant to provide independent insights on executive compensation matters. As a direct result of this process, we determined that we should update our current long-term incentive plan. We directed management to prepare the 2005 Plan and recommended the 2005 Plan to the Board for approval and submission to the stockholders of the Company at the 2005 Annual Meeting for adoption and approval.

Our policy is to maximize the tax deductibility of compensation payments to executives under Section 162(m) of the Internal Revenue Code and the regulations thereunder (Section 162(m)). In the past, our stockholders have approved our incentive plans designed and administered to qualify compensation awarded thereunder as performance-based. Similarly, in this Proxy Statement, upon our recommendation, the Board is seeking stockholder approval of the 2005 Plan, which is designed and intended to be administered to qualify as performance based. The Company s policy is to take reasonable and practical steps to avoid or minimize the amount of compensation that is not deductible from the Company s taxable income.

Primary Elements of Compensation

The Company is engaged in highly competitive businesses and must attract and retain qualified executives in order to be successful. In 2004, executive compensation was comprised of the following elements:

Base Salary. The base salaries for the CEO and each of the other executive officers of the Company are determined after review of publicly available information. This includes information concerning the base salaries of executives with similar responsibilities in companies of comparable size engaged in businesses similar to the Company s core businesses. These companies may include, but are not necessarily the same as, those included in the Peer Group Index Graph in the Comparison of Stockholder Returns on page 23.

Annual Incentive Compensation. The year-end cash bonuses for the CEO and each of the other executive officers are designed to motivate the CEO and the other executive officers to achieve specific annual financial and other goals. These goals are based on the strategic financial and operating performance objectives of the Company overall and each of its business segments. In our review of the strategic and operating plans of the Company and each business segment at the beginning of 2004, we established incremental target performance levels for each executive officer. These target levels included criteria based on the revenue, operating profit and earnings per share growth goals of the Company and the related financial goals of the businesses. The bonus amount paid to each executive for 2004 was based on the target performance levels reached.

Long Term Incentive Compensation. The Amended and Restated 1991 Stock Option Plan (the 1991 Plan) forms the basis of the Company s long-term incentive plan for executives. The Committee believes that a significant portion of executive compensation should be dependent on value created for the stockholders. Stock options generally are granted annually. In 2004, options were granted to the executive officers named in the Summary Compensation Table. In selecting recipients for option grants and in determining the size of such grants, the Committee considers various factors, including those set forth below in this report under the caption Awarding Incentive Compensation for Fiscal 2004.

Other Compensation. Each executive also receives benefits typically offered to executives by companies engaged in businesses similar to the Company s businesses and various benefits generally available to employees of the Company (such as health insurance and 401k matching payments).

Awarding Incentive Compensation for Fiscal 2004

In accordance with the Company s compensation philosophy, we analyzed several qualitative and quantitative factors when awarding Long Term Incentive Compensation for fiscal 2004. We determined incentive compensation based upon a subjective process, considering all of the factors below. We believe Harte-Hanks, Inc. delivered strong financial performance in 2004, and considered this performance in approving incentive compensation. Specifically, we reviewed:

- the Company s and the Company s business units achievements, financial performance and financial ratios, including net revenues, operating income, earnings per share, and several key business drivers,
- Company, business unit and individual performance, both on an absolute basis and against pre-established performance goals,
- compensation paid by companies of comparable size in businesses similar to the Company s businesses,
- the executive officer s level of responsibility, and
- the contributions the Company expects the executive to make in support of the Company s strategies.

2004 Compensation of the CEO

Base Salary. In April 2004, Mr. Hochhauser s annual base salary was increased from $725,000 to $775,000. Total base salary received by Mr. Hochhauser during 2004 was $762,500. In determining the CEO s base salary, we considered Mr. Hochhauser s performance, the Company s performance, and competitive salary data.

Annual Incentive Compensation. Mr. Hochhauser s maximum bonus potential for 2004 was 125% of base salary, with a potential range of 0%-125% of base salary depending on the Company s performance. Mr. Hochhauser s 2004 cash bonus was approximately 124% of his base salary of $775,000, or $961,484, and was based on the degree of attainment of financial goals established at the beginning of 2004.

Long Term Incentive Compensation. In 2004, Mr. Hochhauser received option grants for 125,000 shares of Common Stock under the Company s 1991 Stock Option Plan. In considering option grants for Mr. Hochhauser, the Committee took into consideration the factors described above under the caption Awarding Incentive Compensation for Fiscal 2004.

Compensation Committee

Judy C. Odom, Chair	William K. Gayden	Christopher M. Harte

COMPARISON OF STOCKHOLDER RETURNS

The following graph compares the cumulative total return of the Common Stock during the period December 31, 1999 to December 31, 2004 with the Standard & Poor s 500 Stock Index (the S&P 500 Index) and with a peer group including Axciom Corporation, Catalina Marketing Corporation, Choicepoint, Inc., Convergys Corporation, Equifax, Inc., Fair Isaac and Company, Incorporated, infoUSA, Inc., Sykes Enterprises, Incorporated, and Teletech Holdings, Inc.

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

The graph depicts the results of investing $100 in the Common Stock, the S&P 500 Index and the peer group at closing prices on December 31, 1999. It assumes that all dividends were reinvested.

INDEXED RETURNS

Company Name/Index	Base Period Dec 99	Years Ending Dec 00	Dec 01	Dec 02	Dec 03	Dec 04
HARTE-HANKS INC	100	109.37	130.71	130.58	153.08	184.08
S&P 500 INDEX	100	90.90	80.09	62.39	80.29	89.03
PEER GROUP	100	109.99	106.84	75.60	85.01	97.62

REPORT OF THE AUDIT COMMITTEE

The Audit Committee (the Committee) is comprised of three directors. The Board has determined in its business judgment that each Committee member is independent under the standards of director independence established under our Corporate Governance Principles and the NYSE listing requirements and is also independent for purposes of Section 10A(m)(3) of the Securities Exchange Act of 1934. The Committee has the authority and responsibility to select, determine the compensation of, evaluate and, when appropriate, replace the Company s independent auditors. Each of Messrs. Copeland and Farley is a Committee member that the Board has determined is an audit committee financial expert under the rules of the Securities and Exchange Commission.

We act under a written charter that was amended and restated on January 28, 2004. The functions of the Committee focus primarily on its oversight of:

The integrity of the Company s financial statements including the financial reporting process and systems of internal controls regarding finance, accounting and legal compliance;

The qualifications and performance of the Company s independent auditors;

The performance of the Company s internal audit function and independent auditors; and

The Company s compliance with legal and regulatory requirements.

The Committee functions are not intended to duplicate or certify the activities of the Company s independent auditors or management, nor can the Committee certify that the Company s independent auditors are independent under applicable SEC and the NYSE rules.

We meet with management periodically to consider the scope and adequacy of the Company s internal controls and the objectivity of its financial reporting and discuss these matters with the Company s independent auditors, the Company s internal auditors and appropriate Company financial personnel. We also privately meet at least semi-annually with each of the Company s independent auditors, KPMG LLP, and the Company s internal auditors. The Company s independent auditors and its internal auditors have unrestricted access to the Committee and can meet with us upon request.

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

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

We held eight meetings during fiscal 2004. The meetings were designed, among other things, to facilitate and encourage communication among the Committee, management, the internal auditors and KPMG. We discussed with the Company s internal auditors and KPMG the overall scope and plans for their respective audits. We met with the internal auditors and KPMG, with and without management present, to discuss the results of their examinations and their evaluations of the Company s internal controls. In addition, we reviewed the audited consolidated financial statements for the 2004 fiscal year and met and held discussions with management and the Company s independent auditors to discuss those financial statements and the audit related thereto.

We reviewed and discussed the Company s progress on complying with Section 404 of the Sarbanes-Oxley Act of 2002, including the Public Company Accounting Oversight Board s (PCAOB) Auditing Standard No. 2 regarding the audit of internal control over financial reporting. We reviewed and discussed the Company s guidelines, policies and procedures for risk assessment and risk management and the major risk exposures of the Company and its business units, as appropriate. We reviewed and discussed the audited consolidated financial statements for the fiscal year ended December 31, 2004 with management, the internal auditors and KPMG. We reviewed and discussed with management, the internal auditors and KPMG management s annual report on the Company s internal control over financial reporting and KPMG s attestation report.

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

We discussed with KPMG matters that independent accounting firms must discuss with audit committees. Our discussions included generally accepted auditing standards and standards of the PCAOB, including, among other things, matters related to the conduct of the audit of the Company s consolidated financial statements and the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees).

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

Based on these activities, we recommended to the Board that the Company s audited consolidated financial statements for the fiscal year ended December 31, 2004 be included in the Company s Annual Report on Form 10-K. We also have selected KPMG as the Company s independent auditors for the fiscal year ended December 31, 2005.

Audit Committee

David L. Copeland, Chairman   William F. Farley   Dr. Peter T. Flawn

INDEPENDENT AUDITORS

KPMG LLP, independent certified public accountants, has been selected by the Board, following the recommendation of the Audit Committee, as the Company s independent auditor for 2005. Representatives of KPMG LLP, who were also the Company s independent auditors for the year 2004, are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

PRINCIPAL AUDITOR FEES AND SERVICES

The following table sets forth the aggregate fees billed by KPMG LLP for professional services in or related to 2004 and 2003.

	2004	2003
Audit Fees (1)	$ 310,000	$ 220,000
Internal Control Related Fees (2)	$ 392,000	
Audit Related Fees (3)	$ 71,503	$ 67,746
Tax Fees (4)	$ 21,080	$ 21,262
All Other Fees		
Total	$ 794,583	$ 309,008

(1) Fees for the annual financial statement audit and quarterly financial statement reviews.

(2) Fees for the annual audit of internal control over financial reporting.

(3) Includes fee assurance and related services other than those included in Audit Fees and Internal Control. Also includes charges for audits of employee benefit plans in 2003 and statutory audits of certain of the Company s foreign subsidiaries required by countries in which they are domiciled in 2004 and 2003.

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