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HARTE HANKS INC  
Form DEF 14A  
March 23, 2001

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SCHEDULE 14A  
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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
- [ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- [X] Definitive Proxy Statement
- [ ] Definitive Additional Materials
- [ ] Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

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)(1) and 0-11.

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

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

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(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):

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(4) Proposed maximum aggregate value of transaction:

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(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:

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HARTE-HANKS, INC.  
200 CONCORD PLAZA DRIVE, SUITE 800  
SAN ANTONIO, TEXAS 78216

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD MAY 8, 2001

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 to be held at 200 Concord Plaza Drive, First Floor, San Antonio, Texas 78216, on Tuesday, May 8, 2001, at 10:00 a.m. local time, for the following purposes:

1. To elect two Class II directors, each for a three-year term; and
2. 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 12, 2001 as the record date for the determination of stockholders entitled to notice of and to vote at such meeting and any adjournment thereof.

YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING. HOWEVER, WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, TO ASSURE YOUR SHARES ARE REPRESENTED AT THE MEETING, PLEASE DATE, EXECUTE AND MAIL PROMPTLY 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,  
  
DONALD R. CREWS  
Senior Vice President, Legal and  
Secretary

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San Antonio, Texas  
March 27, 2001

YOUR VOTE IS IMPORTANT.  
PLEASE EXECUTE AND RETURN PROMPTLY THE  
ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED.

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HARTE-HANKS, INC.  
200 CONCORD PLAZA DRIVE, SUITE 800  
SAN ANTONIO, TEXAS 78216  
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PROXY STATEMENT  
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FOR THE ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD MAY 8, 2001  
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This Proxy Statement is furnished to stockholders of Harte-Hanks, Inc. ("Harte-Hanks" or the "Company") for use at the 2001 Annual Meeting of Stockholders to be held at the date, time and place and for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders, or at any adjournment thereof. The enclosed proxy is solicited on behalf of the Board of Directors of the Company. A stockholder 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 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 12, 2001. The approximate date on which this Proxy Statement and the enclosed proxy are first being sent or given to stockholders is March 27, 2001.

VOTING PROCEDURES

The accompanying proxy card is designed to permit each stockholder of record at the close of business on the record date, March 12, 2001 (the "Record Date"), to vote in the election of Class II directors. The proxy card provides space for a stockholder (i) to vote in favor of or to withhold voting for the nominees for the Class II Directors, (ii) to vote for or against any other proposal to be considered at the Annual Meeting or (iii) to abstain from voting on any proposal other than election of Class II directors if the stockholder chooses to do so. The election of Class II directors will be decided by a plurality of the votes cast. Any other matters will be determined by a majority of the votes cast, except as otherwise required by law.

The holders of a majority of all of the shares of 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. Shares as to which authority to vote has been withheld with respect to the election of any nominee for director will not be counted as a vote for such nominee. Abstentions and broker nonvotes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. Abstentions are counted in tabulations of the votes cast on proposals presented to stockholders to determine the total number of votes cast. Abstentions are not counted as votes for or against any such proposals. Broker nonvotes are not counted as votes cast for purposes of determining whether a proposal has been approved.

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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.

If a signed proxy card is returned and the stockholder has made no specifications with respect to voting matters, the shares will be voted FOR the election of the two nominees for Class II director, and at the discretion of the proxies on any other matter that may properly come before the Annual Meeting or any adjournment.

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The total outstanding capital stock of the Company as of March 12, 2001 consisted of 64,781,483 shares of Common Stock. Each share of Common Stock is entitled to one vote.

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 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

#### ELECTION OF CLASS II DIRECTORS

The current number of members of the Board of Directors is seven. The Board of Directors 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 Class II directors will expire at the Annual Meeting. The Class II directors elected in 2001 will serve for a term of three years, which expires at the Annual Meeting of Stockholders in 2004 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 II directors are Larry Franklin and James L. Johnson. Each nominee is a member of the present Board of Directors. 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, 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 BOARD OF DIRECTORS URGES STOCKHOLDERS TO VOTE "FOR"  
EACH OF THE NOMINEES FOR DIRECTOR SET FORTH ABOVE.

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#### SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS

The following table sets forth, as of February 1, 2001, 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

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beneficially more than 5% of the Company's 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).....	10,218,771	15.6%
Houston H. Harte.....	8,882,567	13.8%
David L. Copeland(3).....	7,841,994	12.1%
David L. Sinak(4).....	4,699,906	7.3%
Capital Research and Management Company(5).....	4,387,300	6.8%
Shelton Family Foundation(6).....	4,100,000	6.4%
Christopher M. Harte(7).....	1,412,061	2.2%
Richard M. Hochhauser(8).....	842,017	1.3%
Donald R. Crews(9).....	507,653	*
Peter E. Gorman(10).....	241,050	*
Jacques D. Kerrest(11).....	62,924	*
Dr. Peter T. Flawn.....	10,468	*
James L. Johnson.....	4,188	*
All Executive Officers and Directors as a Group (13 persons)(12).....	22,893,810	34.2%

\* Less than 1%.

- (1) The address of Capital Research and Management Company is 333 South Hope Street, Los Angeles, California 90071. The address of David L. Sinak is c/o Hughes & Luce, L.L.P., 1717 Main Street, Suite 2800, Dallas, Texas 75201. 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 891,500 shares that may be acquired upon the exercise of options exercisable within the next 60 days; 2,755,572 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; 100,000 shares held in trust for his children; and 4,100,000 shares owned by the Shelton Family Foundation of which he is one of six directors and to which he disclaims beneficial ownership.
- (3) Includes 17,700 shares held as custodian for his children; 3,000 shares held as custodian for unrelated minors; 3,677,934 shares that are owned by 29 trusts for which Mr. Copeland serves as trustee or co-trustee and to which he disclaims beneficial ownership; and 4,100,000 shares owned by the Shelton Family Foundation of which he is one of six directors and to which he disclaims beneficial ownership.
- (4) Represents shares owned by 14 trusts for which Mr. Sinak serves as co-trustee and holds shared voting and dispositive power and to which he disclaims beneficial ownership.
- (5) Capital Research and Management Company has sole dispositive power but no voting power as to these shares. Information with respect to Capital Research and Management Company is based on a Schedule 13G filing, dated December 29, 2000.

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- (6) Information relating to this stockholder is based on the stockholder's Schedule 13D filing, dated December 18, 2000.
- (7) Includes 2,200 shares held as custodian for his step-children and child, 833,334 shares owned by two trusts for which Mr. Harte serves as co-trustee with David L. Sinak and in which the trustees have shared voting and dispositive power and to which he disclaims beneficial ownership and 558,839 shares

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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.

- (8) Includes 592,500 shares that may be acquired upon the exercise of options exercisable within the next 60 days.
- (9) Includes 266,850 shares that may be acquired upon the exercise of options exercisable within the next 60 days.
- (10) Includes 241,050 shares that may be acquired upon the exercise of options exercisable within the next 60 days.
- (11) Includes 48,650 shares that may be acquired upon the exercise of options exercisable within the next 60 days and 228 shares held in trust for his children.
- (12) Includes 2,415,400 shares that may be acquired upon the exercise of options exercisable within the next 60 days.

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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 position with the Company, or a similar position with the Company, for at least the past five years, except as noted below.

NAME ----	AGE ---	POSITION WITH COMPANY -----
David L. Copeland.....	45	Director (Class I)
Dr. Peter T. Flawn.....	75	Director (Class I)
Larry Franklin.....	58	Director (Class II); Chairman and Chief Executive Officer
Christopher M. Harte.....	53	Director (Class I)
Houston H. Harte.....	74	Vice Chairman, Board of Directors (Class III)
Richard M. Hochhauser.....	56	Director (Class III); President and Chief Operating Officer
James L. Johnson.....	73	Director (Class II)
Craig Combest.....	56	Senior Vice President; President, National Sales Organization
Donald R. Crews.....	57	Senior Vice President, Legal; Secretary
Charles Dall'Acqua.....	46	Senior Vice President; President, Harte-Hanks

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		Marketing Services
Peter E. Gorman.....	52	Senior Vice President; President, Harte-Hanks Shoppers
Jacques D. Kerrest(1).....	53	Senior Vice President, Finance and Chief Financial Officer
Gary J. Skidmore.....	46	Senior Vice President; President, Harte-Hanks CRM

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(1) Prior to joining the Company in July 1997, Mr. Kerrest served as chief financial officer of Chancellor Broadcasting Company beginning in November 1995.

Class II directors are to be elected at the Annual Meeting. Messrs. Franklin and Johnson are nominees for re-election as Class II directors. The term of Class III directors expires at the 2002 Annual Meeting of Stockholders, and the term of Class I directors expires at the 2003 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.

Dr. Peter T. Flawn, a director of the Company since 1985, is President Emeritus of the University of Texas at Austin. Dr. Flawn is Chairman of the Audit Committee of the Board of Directors.

Larry Franklin has served as a director of the Company since 1974 and as Chief Executive Officer of the Company since 1991. Mr. Franklin has held numerous positions since joining the Company in 1971, including Chief Financial Officer, and also serves as a director of John Wiley & Sons, Inc.

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. 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.

Richard M. Hochhauser has served as Chief Operating Officer of the Company since January 1998 and as a director since 1996. 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.

James L. Johnson, a director of the Company since 1994, is Chairman Emeritus of GTE Corporation. Mr. Johnson serves as a director of CellStar Corporation, Finova Group, Inc., Mutual of New York and Walter Industries, Inc.

MEETING ATTENDANCE AND COMMITTEES OF THE BOARD

The Board of Directors held eleven meetings during 2000. Each member of the Board participated in at least 75% of all Board and committee meetings held during the period that he served as a director and/or committee member. The

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

**Audit Committee.** The Audit Committee currently consists of Dr. Peter T. Flawn (Chairman), David L. Copeland and James L. Johnson. The Audit Committee, which met three times during 2000, is responsible for monitoring the Company's internal audit function and its internal accounting controls, recommending to the Board of Directors the selection of independent auditors, considering the range of audit and non-audit fees and monitoring and reviewing the activities of the independent auditors. All members of the Audit Committee satisfy the independence requirements of the New York Stock Exchange; that is, the Board has determined that no member on the Audit Committee has a relationship with the Company that may interfere with the Audit Committee's independence from the Company and its management.

**Compensation Committee.** The Compensation Committee currently consists of James L. Johnson (Chairman) and Dr. Peter T. Flawn, both of whom are Non-Employee Directors in accordance with Rule 16b-3 of the Securities Exchange Act of 1934 and outside directors in accordance with Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The Compensation Committee, which met nine times during 2000, recommends salary amounts for the Company's chief executive officer and other executive officers and makes the final determination regarding bonus arrangements and awards of stock options to such persons.

The Board of Directors does not have a standing nominating committee or any other committee performing a similar function. The function customarily attributable to a nominating committee is performed by the Board of Directors as a whole.

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### EXECUTIVE COMPENSATION AND OTHER INFORMATION

#### SUMMARY COMPENSATION TABLE

The following table sets forth certain information regarding compensation paid during each of the last three years to the Chief Executive Officer and each of the Company's other most highly compensated executive officers (based on total annual salary and bonus for 2000).

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		OPTIONS GRANTED	ALL OTHER COMPENSATION (2)
		SALARY	BONUS (1)		
Larry Franklin.....	2000	\$835,000	\$561,120	50,000	\$19,800
Chairman and	1999	835,000	200,000	55,000	19,400
Chief Executive Officer	1998	800,000	750,000	110,000	14,920
Richard M. Hochhauser.....	2000	550,000	369,600	75,000	6,800
President and Chief	1999	465,000	148,800	55,000	6,400
Operating Officer	1998	440,000	360,800	90,000	1,920
Jacques D. Kerrest.....	2000	327,000	163,173	25,000	6,800
Senior Vice President, Finance and	1999	314,000	76,930	29,000	6,400
Chief Financial Officer	1998	300,000	180,000	68,000	--
Peter E. Gorman.....	2000	320,000	182,400	20,000	6,800
Senior Vice President; President,	1999	300,000	162,000	17,000	6,400
Harte-Hanks Shoppers	1998	290,000	82,940	36,000	1,920



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Donald R. Crews.....	2000	318,000	158,682	15,000	6,800
Senior Vice President, Legal and	1999	305,000	74,725	18,000	6,400
Secretary	1998	294,000	176,400	36,000	1,920

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- (1) Bonus amounts are inclusive of payments received under the existing incentive compensation plan. Larry Franklin has elected to defer \$416,436, \$545,417 and \$480,000 of the total compensation payable to him in 2000, 1999, and 1998, respectively, in accordance with the Company's deferred compensation plan.
- (2) Consisted of matching contributions made by the Company on behalf of the respective individual under the Company's 401(k) plan and \$13,000 in premiums paid annually by the Company on a split-dollar policy insuring the life of Larry Franklin.

OPTION GRANTS DURING 2000

The following table sets forth certain information concerning options to purchase Common Stock granted in 2000 to the individuals named in the Summary Compensation Table.

NAME	OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 2000	EXERCISE PRICE	MARKET PRICE AT GRANT	EXPIRATION DATE
Larry Franklin.....	50,000 (2)	4.3%	\$20.063	\$20.063	January, 2010
Richard M. Hochhauser.....	75,000 (2)	6.4%	20.063	20.063	January, 2010
Jacques D. Kerrest.....	25,000 (2)	2.1%	20.063	20.063	January, 2010
Peter E. Gorman.....	20,000 (2)	1.7%	20.063	20.063	January, 2010
Donald R. Crews.....	15,000 (2)	1.3%	20.063	20.063	January, 2010

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- (1) Assumed annual compounded rates of stock price appreciation of 5% (63%) and 10% (159%) over the term of the grant applied to market price at date of grant.
- (2) Options become exercisable in installments over five years and expire on the tenth anniversary of the date of grant.

AGGREGATED OPTION EXERCISES IN 2000 AND YEAR-END OPTION VALUES

The following table sets forth certain information concerning option exercises during 2000 and unexercised options held at December 31, 2000 by the individuals named in the Summary Compensation Table.

NUMBER OF UNEXERCISED OPTIONS AT	VALUE OF IN-THE-M
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NAME	SHARES		DECEMBER 31, 2000		DECEMBER
	ACQUIRED ON EXERCISE	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	EXERCISABLE
Larry Franklin.....	--	\$ --	746,000	394,000	\$14,640,024
Richard M. Hochhauser.....	30,000	552,500	540,000	384,000	10,606,976
Jacques D. Kerrest.....	--	--	21,000	211,000	223,365
Peter E. Gorman.....	--	--	205,000	167,500	4,200,638
Donald R. Crews.....	18,000	331,500	298,800	98,700	6,169,710

(1) The value is the amount by which the market value of the underlying stock at December 31, 2000 (\$23.69) exceeds the aggregate exercise prices of the options.

RETIREMENT BENEFIT PLAN

In addition to a defined benefit pension plan which is qualified under Section 401 of the Code, the Company has established for certain individuals an unfunded, non-qualified pension restoration plan. The annual pension benefit under the plans, 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). 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 the pension restoration plan in excess of those payable from the defined benefit plan will be paid under the pension 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 pension plan and pension 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.

HIGHEST 5 YEAR AVERAGE REMUNERATION	YEARS OF CREDITED SERVICE				
	15	20	25	30	35
\$150,000.....	\$ 34,090	\$ 45,453	\$ 56,817	\$ 68,180	\$ 79,543
250,000.....	58,247	77,662	97,078	116,494	135,909
350,000.....	82,997	110,662	138,328	165,994	193,659
450,000.....	107,747	143,662	179,578	215,494	251,409
550,000.....	132,497	176,662	220,828	264,994	309,159
650,000.....	157,247	209,662	262,078	314,494	366,909
750,000.....	181,997	242,662	303,328	363,994	424,659
850,000.....	206,747	275,662	344,578	413,494	482,409
950,000.....	231,497	308,662	385,828	462,994	540,159

The compensation included in the Summary Compensation Table under salary and bonuses qualifies as remuneration for purposes of the Company's defined benefit pension plan and pension restoration plan, except that there are limits on the amounts of bonuses taken into consideration under the pension restoration plan. For purposes of the plans, the officers named in the Summary Compensation

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Table have the following years of service: Mr. Franklin: 29 years; Mr. Hochhauser: 25 years; Mr. Gorman: 20 years and Mr. Kerrest: 4 years; Mr. Crews: 18 years.

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### COMPENSATION OF DIRECTORS

Directors who are not employees or otherwise affiliates of the Company receive annual director's fees of \$47,000 and are reimbursed for certain out of pocket expenses. Directors who are employees or are otherwise affiliates of the Company do not receive director's fees. 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 of the Company based upon fair market value. During 2000, David L. Copeland, Dr. Peter T. Flawn, Christopher M. Harte and James L. Johnson each received director's fees in cash or in stock of \$47,000.

### SEVERANCE AGREEMENTS

The Company has entered into a severance agreement with Larry Franklin. If (i) Mr. Franklin is terminated from his position as Chairman and Chief Executive Officer of the Company other than for "cause" (as defined in the severance agreement), (ii) Mr. Franklin terminates his employment after specified adverse actions are taken by the Company, or (iii) there is a "change in control" (as defined in the severance agreement) of the Company, then in any of such events Mr. Franklin will be entitled to severance compensation in a lump sum cash amount equal to 200% of the sum of (A) the annual base salary in effect just prior to such event, plus (B) the average of the 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. Franklin will immediately vest and become fully exercisable. The Company has entered into a severance agreement with Richard M. Hochhauser which is substantially the same as the severance agreement with Mr. Franklin.

The Company has also entered into severance agreements with each of its other executive officers. If after a "change in control" (as defined in the severance agreements) of the Company, any of such executives is terminated other than for "cause," or elects to terminate his employment under specified circumstances, the executive will be entitled to severance compensation in a lump sum cash amount equal to 200% of the sum of (A) the annual base salary in effect immediately prior to the change in control, plus (B) the average of the 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 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.

### REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors is responsible for recommending to the full Board of Directors salary amounts for the Company's Chief Executive Officer and other executive officers and making the final determination regarding bonus arrangements and awards of stock options to such persons.

Compensation to executives is designed to attract and retain superior talent, to motivate the performance of executives in support of the achievement

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of the Company's strategic financial and operating performance objectives, and to reward performance that meets this standard. The Company is engaged in highly competitive businesses and must attract and retain qualified executives in order to be successful. In 2000, executive compensation comprised the following elements:

**Base Salary.** The base salary for the Chief Executive Officer and the other executive officers of the Company was determined after review of publicly available information concerning the base salaries of executives with similar responsibilities in companies engaged in businesses similar to the Company's core businesses (which may include, but are not necessarily the same as, those included in the Peer Group Index Graph contained in this Proxy Statement) and the responsibilities of each executive officer, particularly in view of the fact that the decentralized management philosophy of the Company relies heavily on the direct action of the Company's executives in pursuit of Company goals.

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**Annual Incentive Compensation.** Year-end cash bonuses are designed to motivate the Chief Executive Officer and the other executive officers to achieve specific annual financial and other goals based on the strategic financial and operating performance objectives of the Company overall, as well as each core business. In conjunction with the Compensation Committee's review of the strategic and operating plans of the Company and each core business at the beginning of 2000, the Compensation Committee established incremental target performance levels for each executive officer based on the operating profit and earnings per share growth goals of the Company and the related financial goals of the core businesses. Bonus amounts were paid to the executive based on the target performance level reached.

**Stock Option Plan.** The 1991 Plan forms the basis of the Company's long-term incentive plan for executives. The Compensation Committee believes that a significant portion of executive compensation should be dependent on value created for the stockholders. Stock options are generally granted annually. In 2000, options were granted at fair market value on the date of grant and become exercisable in installments over five years from such date if the option holder is still employed. In selecting recipients for option grants and in determining the size of such grants, the Compensation Committee considered various factors including the overall performance of the Company and the recipient.

Executives also receive benefits typically offered to executives by companies engaged in businesses similar to the Company's core businesses and various benefits generally available to employees of the Company (such as health insurance).

It is the Company's policy to qualify compensation paid to executive officers for deductibility under applicable provisions of the Code, including Section 162(m). However, the Company may determine from time to time to pay compensation to its executive officers that may not be deductible.

In making its decisions, the Compensation Committee takes into account, primarily on a subjective basis, factors relevant to the specific compensation component being considered, including compensation paid by other companies of comparable size in businesses similar to the Company's core businesses, the generation of income and cash flow by the Company as a whole and the individual core businesses, the attainment of annual individual and business objectives and an assessment of business performance against companies of comparable size in businesses similar to the Company's core businesses, the executive officer's

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level of responsibility and the contributions the Company expects the executive to make in support of the Company's strategies.

2000 Compensation of Chief Executive Officer. The base salary of Mr. Franklin for 2000 was \$835,000, the same amount as his base salary in 1999. Mr. Franklin's bonus potential was targeted at 50% of base salary, with a potential range of 0%-100% of base salary. Mr. Franklin's 2000 cash bonus, which was based on the degree of attainment of financial goals established at the beginning of 2000, reflects the fact that in 2000 the Company's revenues, operating income and earnings per share from the Company's current businesses increased substantially. In 2000, Mr. Franklin received one option grant under the Company's 1991 Plan, and in making that grant the Committee took into consideration the factors described above under the caption "Stock Option Plan."

### COMPENSATION COMMITTEE

James L. Johnson, Chairman

Dr. Peter T. Flawn

### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year ending December 31, 2000, none of the Company's executive officers served on the board of any entities whose directors or officers serve on the Company's Compensation Committee. No current or past executive officers of the Company serve on the Committee.

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### REPORT OF AUDIT COMMITTEE

On May 2, 2000, the Board of Directors adopted the Charter of the Audit Committee of the Board of Directors, a copy of which is attached to this Proxy Statement as Appendix A. Management is responsible for the Company's internal controls and financial reporting process. The Company's independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and for issuing a report thereon. The Audit Committee is responsible for monitoring and overseeing these processes. This report discusses certain actions the Audit Committee took during 2000 in connection with those responsibilities.

In this context, the Audit Committee reviewed the audited consolidated financial statements and met and held discussions with management and KMPG LLP, the Company's independent auditors. The Audit Committee also received and reviewed numerous reports from the Company's internal auditors. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee also discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61, which includes among other items, matters related to the conduct of the audit of the Company's financial statements.

The independent auditors also provided the Audit Committee with written disclosures and the letter required by Independence Standards Board Standard No. 1, which relates to the auditor's independence from the Company and its related entities, and the Audit Committee discussed with the independent auditors their independence.

Based on discussions with management and the independent auditors, as well as the Audit Committee's review of the representations of management and the report of the independent auditors to the Audit Committee, the Audit Committee recommended to the Board of Directors that the Company's audited consolidated financial statements be included in the Annual Report on Form 10-K for the

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fiscal year ended December 31, 2000, filed with the Securities and Exchange Commission.

The Audit Committee has recommended to the Board, and the Board has selected, KPMG LLP as the Company's independent certified public accountants to make the annual audit and to report on, as may be required, the consolidated financial statements which may be filed by the Company with the Securities and Exchange Commission during the ensuing year.

### AUDIT COMMITTEE

Dr. Peter T. Flawn, Chairman      David L. Copeland      James L. Johnson

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### COMPARISON OF STOCKHOLDER RETURNS

The following graph compares the cumulative total return of the Company's Common Stock during the period December 31, 1995 to December 31, 2000 with the S&P 500 Index and a peer group selected by the Company.

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 and is comprised of companies in the Company's lines of business. The peer group is comprised of Acxiom Corporation, Catalina Marketing Corporation, Fair Isaac and Company, Incorporated, infoUSA, INC., Convergys Corporation, Young & Rubicam Inc. (merged with WPP Group PLC in October 2000), Snyder Communications, Inc. (merged with Havas Advertising in September 2000), Sykes Enterprises, Incorporated and Teletech Holdings, Inc. Convergys Corporation and Young & Rubicam Inc have been factored only for 1998, 1999 and 2000 and Snyder Communications, Inc., Sykes Enterprises, Incorporated and Teletech Holdings, Inc. have been factored only for 1997, 1998, 1999 and 2000, because such periods reflect the time these companies have been public.

The graph depicts the results of investing \$100 in the Company's Common Stock, the S&P 500 Index and the peer group at closing prices on December 31, 1995. It assumes that all dividends were reinvested.

### TOTAL STOCKHOLDER RETURNS

[PERFORMANCE GRAPH]