HARTE HANKS INC
Form 10-Q
November 03, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2009

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number 1-7120

HARTE-HANKS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**74-1677284**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
200 Concord Plaza Drive, San Antonio, Texas	**78216**
(Address of principal executive offices)	**(Zip Code)**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§234.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The number of shares outstanding of each of the registrant s classes of common stock as of October 31, 2009 was 63,573,238 shares of common stock, all of one class.

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HARTE-HANKS, INC. AND SUBSIDIARIES

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FORM 10-Q REPORT

September 30, 2009

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Item 1. Interim Condensed Consolidated Financial Statements

Harte-Hanks, Inc. and Subsidiaries

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

	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Assets		
Current assets		
Cash and cash equivalents	$ 83,036	$ 30,161
Accounts receivable *(less allowance for doubtful accounts of $2,904 at September 30, 2009 and $4,191 at December 31, 2008*)	129,148	169,418
Inventory	5,082	7,481
Prepaid expenses	14,488	14,169
Current deferred income tax asset	10,021	13,000
Other current assets	2,077	6,974
Total current assets	243,852	241,203
Property, plant and equipment *(less accumulated depreciation of $239,196 at September 30, 2009 and $231,197 at December 31, 2008)*	82,997	97,433
Goodwill, net	552,886	552,877
Other intangible assets *(less accumulated amortization of $13,600 at September 30, 2009 and $12,241 at December 31, 2008)*	16,630	17,989
Other assets	4,082	4,064
Total assets	$ 900,447	$ 913,566
Liabilities and Stockholders Equity		
Current liabilities		
Current maturities of long-term debt	$ 42,750	$ 30,938
Accounts payable	36,327	48,182
Accrued payroll and related expenses	15,064	22,177
Customer deposits and deferred revenue	50,538	58,227
Income taxes payable	12,941	9,128
Other current liabilities	8,337	19,083
Total current liabilities	165,957	187,735
Long-term debt	206,500	239,687
Other long-term liabilities *(including deferred income taxes of $69,704 at September 30, 2009 and $65,723 at December 31, 2008)*	140,639	129,772
Total liabilities	513,096	557,194
Stockholders equity		
Common stock, $1 par value per share, 250,000,000 shares authorized. 118,241,270 shares issued at September 30, 2009 and 118,085,480 shares issued at December 31, 2008	118,241	118,085
Additional paid-in capital	333,924	331,227
Retained earnings	1,209,263	1,189,376
	(1,236,286)	(1,236,581)

Less treasury stock: 54,671,079 shares at cost at September 30, 2009 and 54,672,070 shares at cost at December 31, 2008				
Accumulated other comprehensive loss		(37,791)		(45,735)
Total stockholders equity		387,351		356,372
Total liabilities and stockholders equity	$	900,447	$	913,566

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Harte-Hanks, Inc. and Subsidiaries

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

(Unaudited)

	Three Months Ended September 30, 2009	2008
Operating revenues	$ 209,318	$ 269,913
Operating expenses		
Labor	87,331	108,728
Production and distribution	76,543	100,665
Advertising, selling, general and administrative	14,445	20,464
Depreciation and software amortization	6,633	8,073
Intangible asset amortization	453	737
Total operating expenses	185,405	238,667
Operating income	23,913	31,246
Other expenses (income)		
Interest expense	2,456	3,450
Interest income	(55)	(90)
Other, net	457	363
	2,858	3,723
Income before income taxes	21,055	27,523
Income tax expense	7,005	10,908
Net income	$ 14,050	$ 16,615
Basic earnings per common share	$ 0.22	$ 0.26
Weighted-average common shares outstanding	63,570	63,281
Diluted earnings per common share	$ 0.22	$ 0.26
Weighted-average common and common equivalent shares outstanding	64,108	63,393

See Notes to Unaudited Condensed Consolidated Financial Statements.

Harte-Hanks, Inc. and Subsidiaries

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

(Unaudited)

	Nine Months Ended September 30, 2009	2008
Operating revenues	$ 642,654	$ 813,178
Operating expenses		
Labor	276,577	335,894
Production and distribution	233,702	295,546
Advertising, selling, general and administrative	46,474	63,052
Depreciation and software amortization	21,939	24,677
Intangible asset amortization	1,359	2,212
Total operating expenses	580,051	721,381
Operating income	62,603	91,797
Other expenses (income)		
Interest expense	7,447	10,788
Interest income	(145)	(316)
Other, net	2,159	2,001
	9,461	12,473
Income before income taxes	53,142	79,324
Income tax expense	18,919	30,909
Net income	$ 34,223	$ 48,415
Basic earnings per common share	$ 0.54	$ 0.76
Weighted-average common shares outstanding	63,550	64,118
Diluted earnings per common share	$ 0.54	$ 0.75
Weighted-average common and common equivalent shares outstanding	63,813	64,278

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Harte-Hanks, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (in thousands)

(Unaudited)

	Nine Months Ended September 30, 2009	2008
Cash Flows from Operating Activities		
Net income	$ 34,223	$ 48,415
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and software amortization	21,939	24,677
Intangible asset amortization	1,359	2,212
Stock-based compensation	3,072	4,530
Excess tax benefits from stock-based compensation	(13)	(120)
Net pension cost	6,680	1,369
Deferred income taxes	5,174	6,493
Other, net	108	83
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable, net	40,270	21,028
Decrease (increase) in inventory	2,399	(1,742)
Decrease (increase) in prepaid expenses and other current assets	4,578	(1,744)
Decrease in accounts payable	(11,855)	(24,730)
Decrease in other accrued expenses and other current liabilities	(16,364)	(5,494)
Other, net	3,060	331
Net cash provided by operating activities	94,630	75,308
Cash Flows from Investing Activities		
Acquisitions, net of cash acquired		(8,655)
Purchases of property, plant and equipment	(7,402)	(16,141)
Proceeds from sale of property, plant and equipment	71	202
Net cash used in investing activities	(7,331)	(24,594)
Cash Flows from Financing Activities		
Borrowings		197,000
Repayment of borrowings	(21,375)	(160,625)
Issuance of common stock	538	3,593
Purchase of treasury stock		(76,649)
Excess tax benefits from stock-based compensation	13	120
Dividends paid	(14,336)	(14,332)
Net cash used in financing activities	(35,160)	(50,893)
Effect of exchange rate changes on cash and cash equivalents	736	(651)
Net increase (decrease) in cash and cash equivalents	52,875	(830)
Cash and cash equivalents at beginning of year	30,161	22,847
Cash and cash equivalents at end of period	$ 83,036	$ 22,017

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Harte-Hanks, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity and Comprehensive Income (in thousands, except per share amounts)

(2009 Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2007	$ 117,693	$ 323,182	$ 1,145,736	$ (1,160,205)	$ (17,894)	$ 408,512
Common stock issued employee stock purchase plan	298	2,639				2,937
Exercise of stock options and release of nonvested shares	94	1,267		(49)		1,312
Net tax effect of options exercised		(1,550)				(1,550)
Stock-based compensation		5,827				5,827
Dividends paid ($0.30 per share)			(19,101)			(19,101)
Treasury stock repurchased				(76,649)		(76,649)
Treasury stock issued		(138)		322		184
Comprehensive income:						
Net income			62,741			62,741
Adjustment to pension liability (net of tax benefit of $15,259)					(22,886)	(22,886)
Change in value of derivative instrument accounted for as a cash flow hedge (net of tax benefit of $762)					(1,146)	(1,146)
Foreign currency translation adjustment					(3,809)	(3,809)
Total comprehensive income						34,900
Balance at December 31, 2008	118,085	331,227	1,189,376	(1,236,581)	(45,735)	356,372
Common stock issued employee stock purchase plan	85	402				487
Exercise of stock options and release of nonvested shares	71	29		(129)		(29)
Net tax effect of options exercised		(504)				(504)
Stock-based compensation		3,072				3,072
Dividends paid ($0.23 per share)			(14,336)			(14,336)
Treasury stock issued		(302)		424		122
Comprehensive income:						
Net income			34,223			34,223
Adjustment to pension liability (net of tax expense of $1,743)					2,612	2,612
Change in value of derivative instrument accounted for as a cash flow hedge (net of tax expense of $1,799)					2,703	2,703
Foreign currency translation adjustment					2,629	2,629
Total comprehensive income						42,167
Balance at September 30, 2009	$ 118,241	$ 333,924	$ 1,209,263	$ (1,236,286)	$ (37,791)	$ 387,351

See Notes to Unaudited Condensed Consolidated Financial Statements.

Harte-Hanks, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Note A Basis of Presentation

Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Harte-Hanks, Inc. and its subsidiaries (the Company). All intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified for comparative purposes. In the Consolidated Statements of Cash Flows, net pension cost has been reclassified from the line item "Other, net", in the Changes in operating assets and liabilities, to the line item Net pension cost in the Adjustments to reconcile net income to cash provided by operating activities.

As used in this report, the terms Harte-Hanks, we, us, or our may refer to Harte-Hanks, one or more of its consolidated subsidiaries, or all of them taken as a whole.

Interim Financial Information

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Operating results for the three months and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The information included in this Form 10-Q should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2008.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results and outcomes could differ from those estimates and assumptions. On an ongoing basis management reviews its estimates based on currently available information. Changes in facts and circumstances could result in revised estimates and assumptions. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

Operating Expense Presentation in Consolidated Statement of Operations

Labor in the Consolidated Statements of Operations includes all employee payroll and benefits, including stock-based compensation, along with temporary labor costs. Production and distribution and Advertising, selling, general and administrative do not include labor, depreciation or amortization.

Note B Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (codified as ASC 105-10). ASC 105-10 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. ASC 105-10 establishes the Accounting Standards Codification (ASC) as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Following this statement, the FASB will issue new standards in the form of

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Accounting Standards Updates (ASU). ASC 105-10 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the provisions of ASC 105-10 on July 1, 2009.

We adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, (ASC 820) relating to financial assets and liabilities on January 1, 2008. We adopted the provisions of ASC 820 relating to non-financial assets and non-financial liabilities on January 1, 2009. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The adoption of ASC 820 did not have a significant impact on our consolidated financial statements.

On January 1, 2009 we adopted the provisions of FASB ASC 805, *Business Combinations,* as revised in December 2007 (ASC 805). ASC 805 establishes principles and requirements for how an acquiring company:

- Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree;
- Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and
- Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

ASC 805 requires an acquiring company to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at fair value as of the acquisition date. Prior to ASC 805, acquisition-related costs were included in the total costs of the acquisition and were allocated to the assets acquired and the liabilities assumed. Under ASC 805, these acquisition-related costs will be expensed in the period in which they are incurred. Prior to ASC 805, contingent consideration usually was not recognized until the contingency was resolved, in which case an adjustment was made to goodwill. ASC 805 requires an acquiring company to recognize contingent consideration at fair value as of the acquisition date. Our adoption of ASC 805 will affect the way we account for future acquisitions, including acquisition-related costs and contingent consideration. Our adoption of ASC 805 may also impact the amount of information we disclose about future acquisitions.

We adopted the provisions of FASB ASC 815, *Derivatives and Hedging,* (ASC 815) on January 1, 2009. ASC 815 establishes, among other things, the disclosure requirements for derivative instruments and for hedging activities. This statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair values and amounts of and gains and losses on derivative instruments, and disclosures about contingent features related to credit risk in derivative agreements. New disclosures required by ASC 815 are included in Note E, *Interest Rate Risk*. The adoption of ASC 815 did not affect our consolidated financial statements.

In December 2008 the FASB amended FASB ASC 715, *Compensation-Retirement Benefits* (ASC 715) to provide additional guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The objectives of the disclosures required by ASC 715 are to provide users of financial statements with an understanding of:

- How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies;
- The major categories of plan assets;
- The inputs and valuation techniques used to measure the fair value of plan assets;

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- The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period; and

- Significant concentrations of risk within plan assets.

We will adopt ASC 715 on December 31, 2009 and the additional disclosures will be included in our annual report on Form 10-K for the year ending December 31, 2009. The adoption of ASC 715 will not affect our consolidated financial statements.

In April 2009, we adopted FASB ASC 825-10-50, *Financial Instruments-Overall-Disclosures*, (ASC 825-10-50). ASC 825-10-50 requires an entity to provide interim disclosures regarding the fair value of financial instruments that were previously only required to be disclosed annually. New disclosures required by ASC 825-10-50 are included in Note F, *Fair Value of Financial Instruments*. The adoption of ASC 825-10-50 did not affect our consolidated financial statements.

In June 2009, we adopted the provisions of FASB ASC 855, *Subsequent Events,* (ASC 855). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet but before financial statements are issued or are available to be issued. ASC 855 sets forth:

- The period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements;

- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and

- The disclosures that an entity should make about events or transactions that occurred after the balance sheet date, as well as the date through which management has evaluated subsequent events and the basis for that date.

New disclosures required by ASC 855 are included in Note M, *Subsequent Events*. The adoption of ASC 855 did not affect our consolidated financial statements.

In October 2009, the FASB issued ASC Subtopic 605-25, *Revenue Recognition-Multiple-Element Arrangements*, (ASC Subtopic 605-25). ASC Subtopic 605-25 provides principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. ASC Subtopic 605-25 introduces an estimated selling price method for allocating revenue to the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are currently evaluating the impact of adopting ASC Subtopic 605-25.

In October 2009, the FASB issued ASU 2009-05, which amends FASB ASC Topic 820, *Fair Value Measurements and Disclosures*. ASU 2009-05 allows companies determining the fair value of a liability to use the perspective of an investor that holds the related obligation as an asset. This update is effective for interim and annual periods beginning after August 27, 2009, and applies to all fair-value measurements of liabilities required by U.S. GAAP. We will adopt ASU 2009-05 as of October 1, 2009 and any additional disclosures will be included in our annual report on Form 10-K for the year ending December 31, 2009. The adoption of ASU 2009-05 will not affect our consolidated financial statements.

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Note C Income Taxes

Our third quarter 2009 income tax provision of $7.0 million resulted in an effective income tax rate of approximately 33.3%. Our income tax provision of $18.9 million for the first nine months of 2009 resulted in an effective income tax rate of approximately 35.6%. Our effective income tax rate is derived by estimating pretax income and income tax expense for the year ending December 31, 2009. The effective income tax rate calculated for the third quarter of 2009 is lower than the federal statutory rate of 35%, primarily due to a reduction in the estimate of a state tax accrual based upon a tentative settlement reached in the third quarter of 2009 with the respective taxing authority. The effective income tax rate calculated for the first nine months of 2009 is higher than the federal statutory rate of 35%, primarily due to the addition of state income taxes.

Harte-Hanks or one of our subsidiaries files income tax returns in the U.S. federal, U.S. state and foreign jurisdictions. For U.S. state and foreign returns, we are no longer subject to tax examinations for years prior to 2004. For U.S. federal returns, we are no longer subject to tax examinations for the years prior to 2006.

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows (in thousands):

Balance at January 1, 2009	$ 7,081
Additions for current year tax positions	
Additions for prior year tax positions	
Reductions for prior year tax positions	(1,948)
Lapse of statute	(100)
Settlements	
Balance at September 30, 2009	$ 5,033

If recognized, the entire unrecognized tax benefit amount at September 30, 2009, $3.4 million net of tax, would impact the effective tax rate. In addition, interest and penalties accrued at September 30, 2009 totaled $3.3 million, or $2.5 million net of tax.

We believe that it is reasonably possible that a reduction in our unrecognized tax liabilities in the range of $0.8 million to $0.9 million, net of tax, and a reduction of interest and penalties in the range of $0.4 million to $0.5 million, net of tax, will occur in the next twelve months related to the tentative settlement reached. Additionally, we believe that it is reasonably possible that a reduction in our unrecognized tax liabilities in the range of $1.4 million to $1.6 million, net of tax, and a reduction of interest and penalties in the range of $0.9 million to $1.0 million, net of tax, will occur in the next twelve months related to the statute expiring on various tax returns. If these additional reductions were to occur, they would decrease the tax expense and effective tax rate for the full year 2009.

Note D Stock-Based Compensation

We recognized $1.6 million of stock-based compensation during each of the three months ended September 30, 2009 and 2008. We recognized $3.1 million and $4.5 million of stock-based compensation during the nine months ended September 30, 2009 and 2008, respectively.

Our annual grant of stock-based awards occurred in the first quarter of 2009, which is consistent with the timing of previous annual grants. We did not have any significant stock-based compensation activity in the second or third quarters of 2009.

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Note E Interest Rate Risk

We assess interest rate risk by regularly identifying and monitoring changes in interest rate exposure that may adversely impact expected future cash flows and by evaluating hedging opportunities. Prior to September 30, 2009 we used a derivative instrument to manage the risk of changes in prevailing interest rates adversely affecting future cash flows associated with our credit facilities. The derivative instrument used to manage such risk was the interest rate swap. Our only interest rate swap matured on September 30, 2009. We have not entered into derivative instruments for any purpose other than cash flow hedging. We do not speculate using derivative instruments.

As with any financial instrument, derivative instruments have inherent risks, primarily market and credit risk. Market risk associated with changes in interest rates is managed as part of our overall market risk monitoring process by establishing and monitoring limits as to the degree of risk that may be undertaken. Credit risk occurs when a counterparty to a derivative contract in which we have an unrealized gain fails to perform according to the terms of the agreement. We seek to minimize our credit risk by entering into transactions with counterparties that maintain high credit ratings.

We account for interest rate swaps in accordance with FASB ASC 815, *Derivatives and Hedging*. We designated our interest rate swap as a cash flow hedge. For a derivative instrument designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative instrument is recorded in other comprehensive loss and is recognized as a component of interest expense in the Statement of Operations when the hedged item affects results of operations. On a quarterly basis, we assess the ineffectiveness of the hedging relationship, and any gains or losses related to the ineffectiveness are recorded as interest expense in our Statement of Operations. There were no components of the derivative instrument that were excluded from the assessment of hedge effectiveness.

In September 2007, we entered into a two-year interest rate swap agreement with a notional amount of $150.0 million and a fixed rate of 4.655%. The two-year term began on September 28, 2007. This interest rate swap changed the variable rate cash flow exposure on the $150.0 million notional amount to fixed rate cash flows by entering into receive-variable, pay-fixed interest rate swap transactions. Under this swap transaction, we received London Interbank Offered Rate (LIBOR) based variable interest rate payments and made fixed interest rate payments, thereby creating fixed rate debt. We designated this hedging relationship as hedging the risk of changes in cash flows (a cash flow hedge) attributable to changes in the LIBOR rate applicable to our 2005 Revolving Credit Facility and 2006 Term Loan Facility. As such, we reported the fair value of the swap as an asset or liability on our balance sheet, any ineffectiveness as interest expense, and effective changes to the fair value of the swap in other comprehensive income (loss). Fair value was determined using projected discounted future cash flows calculated using readily available market information (future LIBOR rates). This swap agreement ended on September 30, 2009 and is no longer recorded on our Consolidated Balance Sheet. We reclassified into earnings losses of $1.7 million and $0.8 million for the three months ended September 30, 2009 and 2008, respectively, that were related to the swap and previously reported in other comprehensive loss. We reclassified into earnings losses of $4.9 million and $1.9 million for the nine months ended September 30, 2009 and 2008, respectively, that were related to the swap and previously reported in other comprehensive loss.

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into three levels. Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs are based on quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

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The following table presents the location of our derivative instrument on the Consolidated Balance Sheets:

	Asset Derivatives				Liability Derivatives			
	September 30, 2009		December 31, 2008		September 30, 2009		December 31, 2008	
In thousands	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated as Hedging Instruments								
Interest rate swap	Not applicable	$	Not applicable	$	Other current liabilities	$	Other current liabilities	$ 4,502
Total Derivatives		$		$		$		$ 4,502

The following table presents the impact of our derivative instrument on the Consolidated Statement of Operations for the three months ended September 30:

	Amount of (Loss) Gain Recognized in OCI on Derivative (Effective Portion)	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)