U.S.
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

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: 001-07120

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 No.)

9601 McAllister Freeway, Suite 610, San Antonio, Texas 78216
(Address of principal executive offices, including zipcode)

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

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

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐		Accelerated filer	☒
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐
			Emerging growth company	☐

if an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price ($10.30) as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2017), was approximately $50,200,128.

The number of shares outstanding of each of the registrant's classes of common stock as of January 31, 2018 was 6,217,586 shares of common stock, all of one class.

Documents incorporated by reference:

Portions of the Proxy Statement to be filed for the company's 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

THIS ANNUAL REPORT ON FORM 10-K IS BEING DISTRIBUTED TO STOCKHOLDERS IN LIEU OF A SEPARATE ANNUAL REPORT PURSUANT TO RULE 14a-3(b) OF THE ACT AND SECTION 203.01 OF THE NEW YORK STOCK EXCHANGE LISTED COMPANY MANUAL.

Harte Hanks, Inc. and Subsidiaries
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Form 10-K Report
December 31, 2017

All common stock, equity, share, and per share amounts have been retroactively adjusted to reflect a one-for-ten reverse stock split which was effective January 31, 2018.

PART I

ITEM 1. BUSINESS

INTRODUCTION

Harte Hanks, Inc. ("Harte Hanks," "we, "our," or "us") partners with clients to deliver relevant, connected, and quality customer interactions. Our approach starts with discovery and learning, which leads to customer journey mapping, creative and content development, analytics, and data management, and continues with execution and support in a variety of digital and traditional channels. We produce engaging and memorable customer interactions to drive business results for our clients, develop better customer relationships, experiences, and defining interaction-led marketing.

Virtually all organizations rely on marketing to generate revenues and publicity. Many businesses have a chief-level executive responsible for marketing who is charged with combining data, technology, channels, and resources to demonstrate a return on marketing investment. This has led many businesses to use direct and targeted marketing, which offer accountability and measurability of marketing programs, allowing customer insight to be leveraged to create and accelerate value. Harte Hanks is a leader in highly targeted, multichannel marketing.

We are the successor to a newspaper business started by Houston Harte and Bernard Hanks in Texas in the early 1920s. We were incorporated in Delaware on October 1, 1970. In 1972, Harte Hanks went public and was listed on the New York Stock Exchange ("NYSE"). We became a private company in a leveraged buyout in 1984, and in 1993 we again went public and listed our common stock on the NYSE.

We provide public access to all reports filed with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended (the "1934 Act"). These documents may be accessed free of charge on our website at *www.hartehanks.com*. There is not any information from this website incorporated by reference herein. These documents are provided as soon as practical after they are filed with the SEC and may also be found at the SEC's website at *www.sec.gov*. Additionally, we have adopted and posted on our website a code of ethics that applies to our principal executive officer, principal financial officer, and principal accounting officer. Our website also includes our corporate governance guidelines and the charters for each of our audit, compensation, and nominating and corporate governance committees, and we will provide a printed copy of any of these documents to any requesting stockholder.

OUR BUSINESS

We offer a wide variety of integrated, multi-channel, data-driven solutions for top brands around the globe. We help our clients gain insight into their customers' behaviors from their data and use that insight to create innovative multi-channel marketing programs to deliver a return on marketing investment. We believe our clients' success is determined not only by how good their tools are, but how well we help them use the tools to gain insight and analyze their consumers. This results in a strong and enduring relationship between our clients and their customers which is key to being leaders in customer interaction. We offer a full complement of capabilities and resources to provide a broad range of marketing services, in media from direct mail to email, including:

- **Agency & Digital Services.** Our agency services are full-service, customer engagement agencies specializing in direct and digital communications for both consumer and business-to-business markets. With strategy, creative, and implementation services, we help marketers within targeted industries understand, identify, and engage prospects and customers in their channel of choice. Our digital solutions integrate online services within the marketing mix and include: search engine management, display, digital analytics, website development and design, digital strategy, social media, email, e-commerce, and interactive relationship management and a host of other services that support our core businesses.

- **Database Marketing Solutions and Business-to-Business Lead Generation.** We have successfully delivered marketing database solutions across various industries. Our solutions are built around centralized marketing databases with three core offerings: insight and analytics; customer data integration; and marketing communications tools. Our solutions enable organizations to build and manage customer communication strategies that drive new customer acquisition and retention and maximize the value of existing customer relationships. Through insight, we help clients identify models of their most profitable customer relationships and then apply these models to increase the value of existing customers while also winning profitable new customers. Through customer data integration, data from multiple sources comes together to provide a single customer view of client prospects and customers. Then we help clients apply their data and insights to the entire customer life cycle, to help clients sustain and grow their business, gain deeper customer insights, and continuously refine their customer resource management strategies and tactics.

- **Direct Mail, Logistics, and Fulfillment.** As a full-service direct marketing provider and a substantial mailing partner of the U.S. Postal Service ("USPS"), our operational mandate is to ensure creativity and quality, provide an understanding of the options available in technologies and segmentation strategies and capitalize on economies of scale with our variety of execution options. Our services include: digital printing, print on demand, advanced mail optimization, logistics and transportation optimization, tracking (including our proprietary prEtrak solution), commingling, shrink wrapping, and specialized mailings. We also maintain fulfillment centers where we provide custom kitting services, print on demand, product recalls, and freight optimization allowing our customers to distribute literature and other marketing materials.

- **Contact Centers.** We operate teleservice workstations around the globe providing advanced contact center solutions such as: speech, voice and video chat, integrated voice response, analytics, social cloud monitoring, and web self-service. We provide both inbound and outbound contact center services and support many languages with our strategically placed global locations for both consumer and business-to-business markets.

Many of our client relationships start with an offering from the list above on an individual solution basis or a combination of our offerings from across our service offerings.

In 2017, 2016, and 2015, Harte Hanks had revenues from continuing operations of $383.9 million, $404.4 million, and $444.2 million, respectively.

Recent Developments

On January 9, 2018, we entered into an amendment (the "First Amendment") to our credit agreement with Texas Capital Bank, N.A. The First Amendment increases the availability under our revolving credit facility from $20 million to $22 million and extended term of the credit facility to April 17, 2020. See Note C, *Long-Term Debt*, in the Notes to Consolidated Financial Statements for further discussion.

On January 23, 2018, we entered into a Securities Purchase Agreement with Wipro, LLC ("Wipro"), under which Wipro paid $9.9 million for shares of our Series A Convertible Preferred Stock which are convertible into 16.0% of our common stock. The proceeds are being used for general corporate purposes, including to finance working capital. See Note P, *Subsequent Events*, in the Notes to Consolidated Financial Statements for further discussion.

On January 31, 2018, we executed a reverse stock split of shares of our common stock whereby every ten pre-split shares were exchanged for one post-split share of Harte Hanks' common stock (the "Reverse Stock Split"). No fractional shares were issued in connection with the Reverse Stock Split; stockholders who would otherwise have held a fractional share of the Common Stock received a cash payment in lieu thereof. In addition, our authorized common stock was reduced from 250 million to 25 million shares. The number of authorized shares of preferred stock remains unchanged at one million shares. See Note P, *Subsequent Events*, in the Notes to Consolidated Financial Statements for further discussion.

On February 28, 2018, we sold our 3Q Digital, Inc. subsidiary to an entity owned by certain former owners of the 3Q Digital business. Consideration for the sale included $5.0 million in cash proceeds and assignment of a $35 million contingent consideration obligation of the company (related to our purchase of 3Q Digital in 2015) to the buyer, therefore relieving the company of such obligation. See Note P, *Subsequent Events*, in the Notes to Consolidated Financial Statements for further discussion.

Customers

Our services are marketed to specific industries or markets with services and software products tailored to each industry or market. We believe that we are generally able to provide services to new industries and markets by modifying our existing services and applications. We currently provide services primarily to the retail, B2B, financial services, consumer, and healthcare vertical markets, in addition to a range of other select markets. Our largest client (measured in revenue) comprised 9% of total revenues in 2017. Our largest 25 clients in terms of revenue comprised 59% of total revenues in 2017.

Sales and Marketing

Our enterprise sales force sells a variety of solutions and services to address client’s targeted marketing needs. We maintain solution-specific sales forces and sales groups to sell our individual products and solutions. Our direct sales forces, with industry-specific knowledge and experience, emphasize the cross-selling of a full range of direct marketing services and are supported by employees in each service area assigned to specific clients with industry specific expertise. We rely on our enterprise and solution sellers to primarily sell our products and services to new clients and task our employees supporting existing clients to expand our client relationship through additional solutions and products.

Facilities

Our services are provided at the following facilities, all of which are leased:

Domestic Offices

Austin, Texas	Maitland, Florida
Bellaire, Texas	New York, New York
Burlington, Vermont	Oakland, California
Chelmsford, Massachusetts	Raleigh, North Carolina
Chicago, Illinois	San Antonio, Texas
Deerfield Beach, Florida	San Diego, California
Denver, Colorado	San Francisco, California
East Bridgewater, Massachusetts	San Mateo, California
Fullerton, California	Shawnee, Kansas
Grand Prairie, Texas	Trevose, Pennsylvania
Jacksonville, Florida	Texarkana, Texas
Langhorne, Pennsylvania	Wilkes-Barre, Pennsylvania

International Offices

Bristol, United Kingdom	Manila, Philippines
Hasselt, Belgium	Uxbridge, United Kingdom
Iasi, Romania	

Competition

Our business faces significant competition in all of its offerings and within each of its vertical markets. Direct marketing is a dynamic business, subject to rapid technological change, high turnover of client personnel who make buying decisions, client consolidations, changing client needs and preferences, continual development of competing products and services, and an evolving competitive landscape. Our competition comes from numerous local, national, and international direct marketing and advertising companies, and client internal resources, against whom we compete for individual projects, entire client relationships, and marketing expenditures. Competitive factors in our industry include the quality and scope of services, technical and strategic expertise, the perceived value of the services provided, reputation, and brand recognition. We also compete against internet (social, mobile, web-based, and email), print, broadcast, and other forms of advertising for marketing and advertising dollars in general. Failure to continually improve our current processes, advance and upgrade our technology applications, and to develop new products and services in a timely and cost-effective manner, could result in the loss of our clients or prospective clients to current or future competitors. In addition, failure to gain market acceptance of new products and services could adversely affect our growth. Although we believe that our capabilities and breadth of services, combined with our U.S. and international production capability, industry focus, and ability to offer a broad range of integrated services, enable us to compete effectively, our business results may be adversely impacted by competition. Please refer to Item 1A, “Risk Factors”, for additional information regarding risks related to competition.

Seasonality

Our revenues tend to be higher in the fourth quarter than in other quarters during a given year. This increased revenue is a result of overall increased marketing activity prior to and during the holiday season, primarily related to our retail vertical.

Discontinued Operations

Previously, Harte Hanks also provided data quality solutions through Trillium Software, Inc. (“Trillium US”). On December 23, 2016, (i) Harte Hanks completed the sale of Trillium US to Syncsort Incorporated (“US Buyer”), (ii) Harte-Hanks UK Limited (“UK Seller”) completed the sale of Harte-Hanks Trillium UK Limited (“Trillium UK”) to Syncsort Limited (“UK Buyer”), and (iii) Harte-Hanks GmbH (“German Seller” and together with Harte Hanks and UK Seller, the “Sellers”) completed the sale of Harte-Hanks Trillium Software Germany GmbH (“Trillium Germany” and together with Trillium US and Trillium UK, “Trillium”) to Syncsort GmbH (“German Buyer” and together with US Buyer and UK Buyer, the “Syncsort Buyers”), in each case pursuant to a Stock Purchase Agreement (the “Purchase Agreement”) entered into on November 29, 2016 by and among the Sellers, the Syncsort Buyers, Trillium, and Harte Hanks, in its capacity as representative of the Sellers (such transaction, the “Trillium Sale”). The aggregate consideration received by the Sellers in respect of Trillium from the Syncsort Buyers was approximately $112.0 million in cash, less estimated purchase price adjustments, pursuant to the terms of the Purchase Agreement. A portion of the cash consideration was deposited into escrow for post-closing purchase price adjustments and the Sellers’ indemnification obligations.

The decision to sell Trillium largely derived from the desire to prioritize investments to support our other services that more directly serve chief marketing officers by optimizing our clients' customer journey across an omni-channel delivery platform. Because the Trillium business required continuing investment and development, and because the competitive and other market dynamics of software businesses were so distinct from our other services, we thought a sale of the business would be best for both the rest of our business as well as Trillium itself. The proceeds from the sale were used to repay in full, and allow the termination of, our 2016 secured credit facility with Wells Fargo Bank, N.A. See Liquidity and Capital Resources in the Management's Discussion and Analysis for further discussion.

This transaction resulted in an after-tax loss of $39.9 million. Because Trillium represented a distinct business unit with operations and cash flows that can clearly be distinguished, both operationally and for financial purposes, from the rest of Harte Hanks, the results of operations, financial position, and cash flows for Trillium are reported separately as discontinued operations for all periods presented. Results of the remaining Harte Hanks business are reported as continuing operations.

GOVERNMENT REGULATION

As a company conducting varied business activities for clients across diverse industries around the world, we are subject to a variety of domestic and international legal and regulatory requirements that impact our business, including, for example, regulations governing consumer protection, and unfair business practices, contracts, e-commerce, intellectual property, labor, and employment (especially wage and hour laws), securities, tax, and other laws that are generally applicable to commercial activities.

We are also subject to, or affected by, numerous local, national, and international laws, regulations, and industry standards that regulate direct marketing activities, including those that address privacy, data security, and unsolicited marketing communications. Examples of some of these laws and regulations that may be applied to, or affect, our business or the businesses of our clients include the following:

- The Federal Trade Commission’s positions regarding the processing of personal information and protecting consumers as expressed through its Protecting Consumer Privacy in an Era of Rapid Change, Data Brokers, Big Data and Cross-Device Tracking reports (each of which seek to address consumer privacy, data protection, and technological advancements related to the collection or use of personal information for marketing purposes).
- Data protection laws in the European Union ("EU"), including the General Data Protection Regulation (EU Regulation 679/2016) which imposes a number of obligations with respect to the processing of personal data and prohibitions related to the transfer of personal information from the EU to other countries, including the U.S., that do not provide data subjects with an “adequate” level of privacy or security.
- The Financial Services Modernization Act of 1999, or Gramm-Leach-Bliley Act ("GLB"), which, among other things, regulates the use for marketing purposes of non-public personal financial information of consumers that is held by financial institutions. Although Harte Hanks is not considered a financial institution, many of our clients are subject to the GLB. The GLB also includes rules relating to the physical, administrative, and technological protection of non-public personal financial information.
- The Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), which regulates the use of protected health information for marketing purposes and requires reasonable safeguards designed to prevent intentional or unintentional use or disclosure of protected health information.
- The Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), which amended the FCRA and requires, among other things, consumer credit report notice requirements for creditors that use consumer credit report information in connection with risk-based credit pricing actions and also prohibits a business that receives consumer information from an affiliate from using that information for marketing purposes unless the consumer is first provided a notice and an opportunity to direct the business not to use the information for such marketing purposes, subject to certain exceptions.
- The Fair Credit Reporting Act ("FCRA"), which governs, among other things, the sharing of consumer report information, access to credit scores, and requirements for users of consumer report information.
- Federal and state laws governing the use of the email for marketing purposes, including the U.S. Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 ("CAN-SPAM"), Canada’s Anti-Spam Legislation ("CASL") and similar e-Privacy laws in Europe (in support of Directive 2002/58/EC).
- Federal and state laws governing the use of telephones for unsolicited marketing purposes, including the Federal Trade Commission’s Telemarketing Sales Rule ("TSR"), the Federal Communications Commission’s Telephone Consumer Protection Act ("TCPA"), various U.S. state do-not-call laws, Canada’s National Do Not Call laws and rules (“Telecommunications Act”) and similar e-Privacy laws in Europe (in support of Directive 2002/58/EC).

- Federal and state laws governing the collection and use of personal data online and via mobile devices, including but not limited to the Federal Trade Commission Act and the Children's Online Privacy Protection Act, which seek to address consumer privacy and protection.
- Federal and state laws in the U.S., Canada, and Europe specific to data security and breach notification, which include required standards for data security and generally require timely notifications to affected persons in the event of data security breaches or other unauthorized access to certain types of protected personal data.

There are additional consumer protection, privacy, and data security regulations in locations where we or our clients do business. These laws regulate the collection, use, disclosure, and retention of personal data and may require consent from consumers and grant consumers other rights, such as the ability to access their personal data and to correct information in the possession of data controllers. We and many of our clients also belong to trade associations that impose guidelines that regulate direct marketing activities, such as the Direct Marketing Association's Commitment to Consumer Choice.

As a result of increasing public awareness and interest in individual privacy rights, data protection, information security, and environmental and other concerns regarding marketing communications, federal, state, and foreign governmental and industry organizations continue to consider new legislative and regulatory proposals that would impose additional restrictions on direct marketing services and products. Examples include data encryption standards, data breach notification requirements, consumer choice and consent restrictions, and increased penalties against offending parties, among others.

In addition, our business may be affected by the impact of these restrictions on our clients and their marketing activities. These additional regulations could increase compliance requirements and restrict or prevent the collection, management, aggregation, transfer, use, or dissemination of information or data that is currently legally available. Additional regulations may also restrict or prevent current practices regarding unsolicited marketing communications. For example, many states have considered implementing "do-not-mail" legislation that could impact our business and the businesses of our clients and customers. In addition, continued public interest in individual privacy rights and data security may result in the adoption of further voluntary industry guidelines that could impact our direct marketing activities and business practices.

We cannot predict the scope of any new legislation, regulations, or industry guidelines or how courts may interpret existing and new laws. Additionally, enforcement priorities by governmental authorities may change and also impact our business either directly or through requiring our customers to alter their practices. Compliance with regulations is costly and time-consuming for us and our clients, and we may encounter difficulties, delays, or significant expenses in connection with our compliance. We may also be exposed to significant penalties, liabilities, reputational harm, and loss of business in the event that we fail to comply with applicable regulations. There could be a material adverse impact on our business due to the enactment or enforcement of legislation or industry regulations, the issuance of judicial or governmental interpretations, enforcement priorities of governmental agencies, or a change in customs arising from public concern over consumer privacy and data security issues.

INTELLECTUAL PROPERTY RIGHTS

Our intellectual property assets include trademarks and service marks that identify our company and our services, know-how, software, and other technology that we develop for our internal use and for license to clients and data and intellectual property licensed from third parties, such as commercial software and data providers. We generally seek to protect our intellectual property through a combination of license agreements and trademark, service mark, copyright, patent and trade secret laws, and domain name registrations and enforcement procedures. We also enter into confidentiality agreements with many of our employees, vendors, and clients and seek to limit access to and distribution of intellectual property and other proprietary information. We pursue the protection of our trademarks and other intellectual property in the U.S. and internationally. Although we from time to time evaluate inventions for patentability, we do not own any patents, and patents are not core to our intellectual property strategy (other than as may be incidental to commercially available technology or software we license).

EMPLOYEES

As of December 31, 2017, Harte Hanks employed 5,392 full-time employees and 243 part-time employees, of which approximately 2,805 are based outside of the U.S., primarily in the Philippines. A portion of our workforce is provided to us through staffing companies. None of our workforce is represented by labor unions. We consider our relations with our employees to be good.

ITEM 1A. RISK FACTORS

Cautionary Note Regarding Forward-Looking Statements

This report, including the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), contains "forward-looking statements" within the meaning of the federal securities laws. All such statements are qualified by this cautionary note, which is provided pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 (the "1933 Act") and Section 21E of the 1934 Act. Forward-looking statements may also be included in our other public filings, press releases, our website, and oral and written presentations by management. Statements other than historical facts are forward-looking and may be identified by words such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "seeks," "could," "intends," or words of similar meaning. Examples include statements regarding (1) our strategies and initiatives, (2) adjustments to our cost structure and other actions designed to respond to market conditions and improve our performance, and the anticipated effectiveness and expenses associated with these actions, (3) our financial outlook for revenues, earnings per share, operating income, expense related to equity-based compensation, capital resources and other financial items, (4) expectations for our businesses and for the industries in which we operate, including the impact of economic conditions of the markets we serve on the marketing expenditures and activities of our clients and prospects, (5) competitive factors, (6) acquisition and development plans, (7) our stock repurchase program, (8) expectations regarding legal proceedings and other contingent liabilities, (9) the impact of recent tax reform legislation on our results of operations, and (10) other statements regarding future events, conditions, or outcomes.

These forward-looking statements are based on current information, expectations, and estimates and involve risks, uncertainties, assumptions, and other factors that are difficult to predict and that could cause actual results to vary materially from what is expressed in or indicated by the forward-looking statements. In that event, our business, financial condition, results of operations, or liquidity could be materially adversely affected, and investors in our securities could lose part or all of their investments. Some of these risks, uncertainties, assumptions, and other factors can be found in our filings with the SEC, including the factors discussed below in this Item 1A, "Risk Factors", and any updates thereto in our Forms 10-Q. The forward-looking statements included in this report and those included in our other public filings, press releases, our website, and oral and written presentations by management are made only as of the respective dates thereof, and we undertake no obligation to update publicly any forward-looking statement in this report or in other documents, our website, or oral statements for any reason, even if new information becomes available or other events occur in the future, except as required by law.

In addition to the information set forth elsewhere in this report, including in the MD&A section, the factors described below should be considered carefully in making any investment decisions with respect to our securities.

Most of our client engagements are cancelable on short notice.

The marketing services we offer, and in particular for direct mail and contact center services, are generally terminable upon short notice by our clients, even if the term of the agreement (and the expected duration of services) is several or many years. Many of our customer agreements do not have minimum volume or revenue requirements, so clients may (and do) vary their actual orders from us over time based on their own business needs, their satisfaction with the quality and pricing of our services, and a variety of other competitive factors. In addition, the timing of particular jobs or types of jobs at particular times of year (such as mail programs supporting the holiday shopping season, or contact center programs supporting a specific event) may cause significant fluctuations in the operating results of our operations in any given quarter. We depend to some extent on sales to certain industries, such as the consumer retail industries, technology, and financial services. To the extent these industries experience downturns, the results of our operations may be adversely affected.

A large portion of our revenue is generated from a limited number of clients, with concentration in the consumer retail industry. The loss of significant work from one or more of our clients could adversely affect our business.

Our ten largest clients collectively represented 43.2% of our revenues for 2017. Furthermore, traditional consumer retail (which is experiencing significant business model and financial challenges) represented 24.9% of our 2017 revenues. While we typically have multiple projects with our largest customers which would not all terminate at the same time, the loss of one or more of the projects or contracts with one of our largest clients could adversely affect our business, results of operations, and financial condition if the lost revenues were not replaced with profitable revenues from that client or other clients.

We rely on business partners as an essential element of our go-to-market strategy, and we depend on one business partner, which is also a significant equity holder, for a large number of critical services.

We have determined that for some services, and most technology, we are best served by partnering with other companies, engaging them as vendors either on a standing or as-needed basis. We believe this approach reduces the investment needed to access these services and technologies for our clients, and provides greater flexibility in how we structure solutions for clients and adapt to market changes. However, because we do not own or control the service or technology partners, we are subject to the potential failure of those partners financially or commercially. We may not be able to anticipate any such problems, and failure or weakness of one or more of our key business partners could have a material effect on our ability to deliver services to our clients, and in turn harm our financial performance. Furthermore, our business partners may have different or conflicting interests, and although we seek to negotiate appropriate commercial terms, we may be unable to secure or enforce those terms in order to protect our client and employee relationships. Should our partners undermine our client or employee relations, our financial performance will be harmed.

In particular, Wipro, LLC provides a wide array of services for us and for our clients, including database and software development, database support and analytics, IT infrastructure support and digital campaign management. Because of the nature of these services, it would be difficult and disruptive to our business to replace Wipro if doing so was necessary or desirable. Wipro is our largest equity holder, having recently invested $9.9 million in us through the purchase of our Series A Convertible Preferred Stock. Subject to certain conditions, Wipro, LLC is entitles to appoint a non-voting board observer or a board member to our board of directors.

We face significant competition for individual projects, entire client relationships and advertising dollars in general.

Our business faces significant competition within each of our vertical markets and for all of our offerings. We offer our marketing services within a dynamic business environment characterized by rapid technological change, high turnover of client personnel who make buying decisions, client consolidations, changing client needs and preferences, continual development of competing products and services, and an evolving competitive landscape. This competition comes from numerous local, national, and international direct marketing and advertising companies, and client internal resources, against whom we compete for individual projects, entire client relationships, and marketing expenditures by clients and prospective clients. We also compete against internet (social, mobile, web-based, and email), print, broadcast, and other forms of advertising for marketing and advertising dollars in general. In addition, our ability to attract new clients and to retain existing clients may, in some cases, be limited by clients' policies on or perceptions of conflicts of interest which may prevent us from performing similar services for competitors. Some of our clients have also sought to reduce the number of marketing vendors or use third-party procurement organizations, all of which increases pricing pressure, and may disadvantage us relative to our competitors. Our failure to improve our current processes or to develop new products and services could result in the loss of our clients to current or future competitors. In addition, failure to gain market acceptance of new products and services could adversely affect our growth and financial condition.

Current and future competitors may have significantly greater financial and other resources than we do, and they may sell competing services at lower prices or at lower profit margins, resulting in pressures on our prices and margins.

The sizes of our competitors vary widely across vertical markets and service lines. Therefore, some of our competitors may have significantly greater financial, technical, marketing, or other resources than we do in any one or more of our market segments, or overall. As a result, our competitors may be in a position to respond more quickly than we can to new or emerging technologies, methodologies, and changes in customer requirements, or may devote greater resources than we can to the development, promotion, sale, and support of products and services. Moreover, new competitors or alliances among our competitors may emerge and potentially reduce our market share, revenue, or margins. Some of our competitors also may choose to sell products or services competitive to ours at lower prices by accepting lower margins and profitability, or may be able to sell products or services competitive to ours at lower prices given proprietary ownership of data, technical superiority, a broader or deeper product or experience set, or economies of scale. Price reductions or pricing pressure by our competitors could negatively impact our margins and results of operations, and could also harm our ability to obtain new customers on favorable terms. Competitive pricing pressures tend to increase in difficult or uncertain economic environments, due to reduced marketing expenditures of many of our clients and prospects, and the resulting impact on the competitive business environment for marketing service providers such as our company.

We must maintain technological competitiveness, continually improve our processes, and develop and introduce new services in a timely and cost-effective manner.

We believe that our success depends on, among other things, maintaining technological competitiveness in our products, processing functionality, and software systems and services. Technology changes rapidly as makers of computer hardware, network systems, programming tools, computer and data architectures, operating systems, database technology, and mobile devices continually improve their offerings. Advances in information technology may result in changing client preferences for products and product delivery channels in our industry. The increasingly sophisticated requirements of our clients require us to continually improve our processes and provide new products and services in a timely and cost-effective manner (whether through development, license, or acquisition). For example, in 2017 we invested in a new database offering and marketing data platform. Our direct mail operations are increasingly pressured by larger-scale competitors who have adopted technologies allowing them to more effectively and efficiently customize mailed marketing materials. We may be unable to successfully identify, develop, and bring new and enhanced services and products to market in a timely and cost-effective manner, such services and products may not be commercially successful, and services, products, and technologies developed by others may render our services and products noncompetitive or obsolete.

Our success depends on our ability to consistently and effectively deliver our services to our clients.

Our success depends on our ability to effectively and consistently staff and execute client engagements within the agreed upon time frame and budget. Depending on the needs of our clients, our engagements may require customization, integration, and coordination of a number of complex product and service offerings and execution across many facilities. Moreover, in some of our engagements, we rely on subcontractors and other third parties to provide some of the services to our clients, and we cannot guarantee that these third parties will effectively deliver their services or that we will have adequate recourse against these third parties in the event they fail to effectively deliver their services. Other contingencies and events outside of our control may also impact our ability to provide our products and services. Our failure to effectively and timely staff, coordinate, and execute our client engagements may adversely impact existing client relationships, the amount or timing of payments from our clients, our reputation in the marketplace and ability to secure additional business and our resulting financial performance. In addition, our contractual arrangements with our clients and other customers may not provide us with sufficient protections against claims for lost profits or other claims for damages.

We have recently experienced, and may experience in the future, reduced demand for our products and services due to the financial condition and marketing budgets of our clients and other factors that may impact the industry verticals that we serve.

Marketing budgets are largely discretionary in nature, and as a consequence are easier to reduce in the short-term than other expenses. Our customers have in the past, and may in the future, responded to their own financial constraints (whether caused by weak economic conditions, weak industry performance or client-specific issues) by reducing their marketing spending. Customers may also be slow to restore their marketing budgets to prior levels during a recovery, and may respond similarly to adverse economic conditions in the future. Our revenues are dependent on national, regional, and international economies and business conditions. A lasting economic recession or anemic recovery in the markets in which we operate could have material adverse effects on our business, financial position, or operating results. Similarly, industry or company-specific factors may negatively impact our clients and prospective clients, and in turn result in reduced demand for our products and services, client insolvencies, collection difficulties or bankruptcy preference actions related to payments received from our clients. We may also experience reduced demand as a result of consolidation of clients and prospective clients in the industry verticals that we serve.

We must effectively manage our costs to be successful. If we do not achieve our cost management objectives, our financial results could be adversely affected.

Our business plan and expectations for the future require that we effectively manage our cost structure, including our operating expenses and capital expenditures across our operations. To the extent that we do not accurately anticipate and effectively manage our costs as our business evolves, our financial results may be adversely affected.

Our financial performance and failure to timely file periodic reports with the SEC has harmed our commercial reputation and relationship with customers, vendors, and other commercial parties, and may impair our ability to attract, retain and motivate employees.

Our declining financial performance and failure to timely file periodic reports with the SEC has caused customers and vendors to increase scrutiny on payment and performance terms in our agreements, which may impose additional costs (or result in reduced profitability) in our operations. Clients, vendors, and partners (and prospective clients, vendors, and partners) may also decline to do business with us due to their concerns regarding our financial condition. Additionally, due to our liquidity constraints, we may be unable to aggressively price our services to win work in competitive bid situations. These impediments to working with clients, vendors and partners may reduce both our overall revenues and profitability, and consequently the value of our common stock.

Likewise, our declining financial performance and failure to timely file periodic reports with the SEC has negatively affected employee morale and compensation. Due to financial constraints, we may have difficulty providing compensation that is sufficient to attract, retain and motivate employees, especially skilled professionals for whom sizeable bonus payouts are a key element of market-driven cash compensation. Furthermore, the decline in the price of our common stock has eroded the value of our equity-based incentive programs. If we are unable to attract, retain and motivate employees despite our financial performance and within the resource constraints, it will impair our ability to effectively serve our clients, which in turn is likely to reduce both our overall revenues and profitability, and consequently the value of our common stock.

Our inability to comply with the listing requirements of the New York Stock Exchange could result in our common stock being delisted, which could affect our common stock's market price and liquidity and reduce our ability to raise capital.

During 2017, we received several notices from the NYSE indicating that the average closing price of our common stock had fallen below $1.00 per share over a period of 30 consecutive trading days, which is the minimum average share price for continued listing on the NYSE under Rule 802.01C of the NYSE Listed Company Manual. This compelled us to effect a 1-for-10 reverse stock split on January 31, 2018.

Although the NYSE has notified us that we have cured the average closing price requirement, other NYSE continued listing requirements include that we maintain an average market capitalization of over $50 million (measured over a consecutive 30 trading-day periods) when our stockholders' equity is less than $50 million, as it recently has been. Our common stock could be delisted if we are not in compliance with this (or any other such) requirement and are unable to regain compliance during any applicable cure or grace period. A delisting of our common stock could negatively impact us by, among other things, reducing the liquidity and market price of our common stock and reducing the number of investors willing to hold or acquire our common stock.

Privacy, information security and other regulatory requirements may prevent or impair our ability to offer our products and services.

We are subject to and affected by numerous laws, regulations, and industry standards that regulate direct marketing activities, including those that address privacy, data protection, information security, and marketing communications. Please refer to the section above entitled “Government Regulation” for additional information regarding some of these regulations.

As a result of increasing public awareness and interest in privacy rights, data protection and access, information security, environmental protection, and other concerns, national and local governments and industry organizations regularly consider and adopt new laws, rules, regulations, and guidelines that restrict or regulate marketing communications, services, and products. Examples include data encryption standards, data breach notification requirements, registration/licensing requirements (often with fees), consumer choice, notice, and consent restrictions and penalties for infractions, among others. In addition, the new European General Data Protection Regulation (GDPR) will take effect in May 2018 and will apply to all of our products and services that provide service in Europe. The GDPR will include operational requirements for companies that receive or process personal data of residents of the European Union that are different than those currently in place in the European Union. For example, we may be required to implement measures to change or limit (by age, use or geography) our service offerings. We may also be required to obtain consent and/or offer new controls to existing and new users in Europe before processing data for certain aspects of our services. In addition, the GDPR will include significant penalties for non-compliance. We anticipate that additional restrictions and regulations will continue to be proposed and adopted in the future. The Philippines has also adopted the Data Privacy Act of 2012 (Republic Act 10173) which mirrors most important aspects of the GDPR, and is likely to have a similar effect on our operations in and involving the Philippines.

Our business may also be affected by the impact of these restrictions and regulations on our clients and their marketing activities. In addition, as we acquire new capabilities and deploy new technologies to execute our strategy, we may be exposed to additional types or layers of regulation. Current and future restrictions and regulations could increase compliance requirements and costs, and restrict or prevent the collection, management, aggregation, transfer, use or dissemination of information (especially with respect to personal information), or change the requirements therefore so as to require other changes to our business or that of our clients. Additional restrictions and regulations may limit or prohibit current practices regarding marketing communications and information quality solutions. For example, many states and countries have considered implementing "do not contact" legislation that could impact our business and the businesses of our clients and customers. In addition, continued public interest in privacy rights, data protection and access, and information security may result in the adoption of further industry guidelines that could impact our direct marketing activities and business practices.

We cannot predict the scope of any new laws, rules, regulations, or industry guidelines or how courts or agencies may interpret current ones. Additionally, enforcement priorities by governmental authorities will change over time, which may impact our business. Understanding the laws, rules, regulations, and guidelines applicable to specific client multichannel engagements and across many jurisdictions poses a significant challenge, as such laws, rules, regulations, and guidelines are often inconsistent or conflicting, and are sometimes at odds with client objectives. Our failure to properly comply with these regulatory requirements and client needs may materially and adversely affect our business. General compliance with privacy, data protection, and information security obligations is costly and time-consuming, and we may encounter difficulties, delays, or significant expenses in connection with our compliance, or because of our clients' need to comply. We may be exposed to significant penalties, liabilities, reputational harm, and loss of business in the event that we fail to comply. We could suffer a material adverse impact on our business due to the enactment or enforcement of legislation or industry regulations affecting us and/or our clients, the issuance of judicial or governmental interpretations, changed enforcement priorities of governmental agencies, or a change in behavior arising from public concern over privacy, data protection, and information security issues.

Consumer perceptions regarding the privacy and security of their data may prevent or impair our ability to offer our products and services.

Various local, national, and international regulations, as well as industry standards, give consumers varying degrees of control as to how certain data regarding them is collected, used, and shared for marketing purposes. If, due to privacy, security, or other concerns, consumers exercise their ability to prevent or limit such data collection, use, or sharing, it may impair our ability to provide marketing to those consumers and limit our clients' demand for our services. Additionally, privacy and security concerns may limit consumers' willingness to voluntarily provide data to our customers or marketing companies. Some of our services depend on voluntarily provided data and therefore may be impaired without such data.

If we do not prevent security breaches and other interruptions to our infrastructure, we may be exposed to lawsuits, lose customers, suffer harm to our reputation, and incur additional costs.

The services we offer involve the transmission of large amounts of sensitive and proprietary information over public communications networks, as well as the processing and storage of confidential customer information. Unauthorized access, remnant data exposure, computer viruses, denial of service attacks, accidents, employee error or malfeasance, "social engineering" and "phishing" attacks, intentional misconduct by computer "hackers" and other disruptions can occur, and infrastructure gaps, hardware and software vulnerabilities, inadequate or missing security controls, and exposed or unprotected customer data can exist that (i) interfere with the delivery of services to our customers, (ii) impede our customers' ability to do business, or (iii) compromise the security of systems and data, which exposes information to unauthorized third parties. We are a target of cyber-attacks of varying degrees on a regular basis. Although we maintain insurance which may respond to cover some types of damages incurred by damage to, breaches of, or problems with, our information and telecommunications systems, such insurance is limited and expensive, and may not respond or be sufficient to offset the costs of such damages, and therefore such damages may materially harm our business.

Our reputation and business results may be adversely impacted if we, or subcontractors upon whom we rely, do not effectively protect sensitive personal information of our clients and our clients' customers.

Current privacy and data security laws and industry standards impact the manner in which we capture, handle, analyze, and disseminate customer and prospect data as part of our client engagements. In many instances, our client contracts also mandate privacy and security practices. If we fail to effectively protect and control information, especially sensitive personal information (such as personal health information, social security numbers, or credit card numbers) of our clients and their customers or prospects in accordance with these requirements, we may incur significant expense, suffer reputational harm, and loss of business, and, in certain cases, be subjected to regulatory or governmental sanctions or litigation. These risks may be increased due to our reliance on subcontractors and other third parties in providing a portion of our overall services in certain engagements. We cannot guarantee that these third parties will effectively protect and handle sensitive personal information or other confidential information, or that we will have adequate recourse against these third parties in that event.

If our facilities are damaged, or if we are unable to access and use our facilities, our business and results of operations will be adversely affected.

Our operations rely on the ability of our employees to work at specially-equipped facilities to perform services for our clients. Although we have some excess capacity and redundancy, we do not have sufficient excess capacity or redundancy (in equipment, facilities, or personnel) to maintain service and operational levels for extended periods if we are unable to use one of our major facilities. Should we lose access to a facility for any reason, our service levels are likely to decline or be suspended, clients would go without service or secure replacement services from a competitor. As consequence of such an event, we would suffer a reduction in revenues and harm to (and loss of) client relationships.

Significant system disruptions, loss of data center capacity or interruption of telecommunication links could adversely affect our business and results of operations.

Our business is heavily dependent upon data centers and telecommunications infrastructures, which are essential to both our call center services and our database services (which require that we efficiently and effectively create, access, manipulate, and maintain large and complex databases). In addition to the third-party data centers we use, we also operate several data centers to support both our own and our clients' needs in this regard, as well as those of some of our clients. Our ability to protect our operations against damage or interruption from fire, flood, tornadoes, power loss, telecommunications or equipment failure, or other disasters and events beyond our control is critical to our continued success. Likewise, as we increase our use of third-party data centers, it is critical that the vendors providing that service adequately protect their data centers from the same risks. Our services are very dependent on links to telecommunication providers. We believe we have taken reasonable precautions to protect our data centers and telecommunication links from events that could interrupt our operations. Any damage to the data centers we use or any failure of our telecommunications links could materially adversely affect our ability to continue services to our clients, which could result in loss of revenues, profitability and client confidence, and may adversely impact our ability to attract new clients and force us to expend significant company resources to repair the damage.

We may need to obtain additional funding to continue as a going concern; if we are unable to meet our needs for additional funding in the future, we will be required to limit, scale back, or cease operations.

Our consolidated financial statements for the year ended December 31, 2017 have been prepared assuming we will continue to operate as a going concern. Because we continue to experience net operating losses, our ability to continue as a going concern is subject to our ability to successfully raise sufficient additional capital as needed, through future financings or other strategic arrangements. Additional funds may not be available when needed, or if available, we may not be able to obtain such funds on terms acceptable to us. If adequate funds are unavailable when needed, we may not be able to continue as a going concern. We may be required to scale down or sell certain businesses, or cease operations.

If our new leaders are unsuccessful, or if we continue to lose key management and are unable to attract and retain the talent required for our business, our operating results could suffer.

Over the past three years we have replaced many of our leaders (including our Chief Executive Officer, Chief Marketing Officer, and Chief Financial Officer) and we have eliminated or consolidated several leadership positions (including Chief Operating Officer, Chief Technology Officer, and Executive Vice President of Sales), resulting in a much smaller leadership team. If our new leaders fail in their new and additional roles and responsibilities (and more generally if we are unable to attract new leaders with the necessary skills to manage our business) our business and its operating results may suffer. Further, our prospects depend in large part upon our ability to attract, train, and retain experienced technical, client services, sales, consulting, marketing, and management personnel. While the demand for personnel is dependent on employment levels, competitive factors, and general economic conditions, our recent business performance may diminish our attractiveness as an employer. The loss or prolonged absence of the services of these individuals could have a material adverse effect on our business, financial position, or operating results.

We could fail to adequately protect our intellectual property rights and may face claims for intellectual property infringement.

Our ability to compete effectively depends in part on the protection of our technology, products, services, and brands through intellectual property right protections, including copyrights, database rights, trade secrets, trademarks and domain name registrations, and enforcement procedures. The extent to which such rights can be protected and enforced varies by jurisdiction, and capabilities we procure through acquisitions may have less protection than would be desirable for the use or scale we intend or need. Litigation involving patents and other intellectual property rights has become far more common and expensive in recent years, and we face the risk of additional litigation relating to our use or future use of intellectual property rights of third parties.

Despite our efforts to protect our intellectual property, unauthorized parties may attempt to copy or otherwise obtain and use our proprietary information and technology. Monitoring unauthorized use of our intellectual property is difficult, and unauthorized use of our intellectual property may occur. We cannot be certain that trademark registrations will be issued, nor can we be certain that any issued trademark registrations will give us adequate protection from competing products. For example, others may develop competing technologies or databases on their own. Moreover, there is no assurance that our confidentiality agreements with our employees or third parties will be sufficient to protect our intellectual property and proprietary information.

Third-party infringement claims and any related litigation against us could subject us to liability for damages, significantly increase our costs, restrict us from using and providing our technologies, products or services or operating our business generally, or require changes to be made to our technologies, products, and services. We may also be subject to such infringement claims against us by third parties and may incur substantial costs and devote significant management resources in responding to such claims, as we have in the recent past. We have been, and continue to be, obligated under some agreements to indemnify our clients as a result of claims that we infringe on the proprietary rights of third parties. These costs and distractions could cause our business to suffer. In addition, if any party asserts an infringement claim, we may need to obtain licenses to the disputed intellectual property. We cannot assure you, however, that we will be able to obtain these licenses on commercially reasonable terms or that we will be able to obtain any licenses at all. The failure to obtain necessary licenses or other rights may have an adverse effect on our ability to provide our products and services.

Breaches of security, or the perception that e-commerce is not secure, could severely harm our business and reputation.

Business-to-business and business-to-consumer electronic commerce requires the secure transmission of confidential information over public networks. Some of our products and services are accessed through or are otherwise dependent on the internet. Security breaches in connection with the delivery of our products and services, or well-publicized security breaches that may affect us or our industry (such as database intrusion) could be severely detrimental to our business, operating results, and financial condition. We cannot be certain that advances in criminal capabilities, cryptography, or other fields will not compromise or breach the technology protecting the information systems that deliver our products, services, and proprietary database information.

Data suppliers could withdraw data that we rely on for our products and services.

We purchase or license much of the data we use for ourselves and for our clients. There could be a material adverse impact on our business if owners of the data we use were to curtail access to the data or materially restrict the authorized uses of their data. Data providers could withdraw their data if there is a competitive reason to do so, if there is pressure from the consumer community or if additional regulations are adopted restricting the use of the data. We also rely upon data from other external sources to maintain our proprietary and non-proprietary databases, including data received from customers and various government and public record sources. If a substantial number of data providers or other key data sources were to withdraw or restrict their data, if we were to lose access to data due to government regulation, or if the collection of data becomes uneconomical, our ability to provide products and services to our clients could be materially and adversely affected, which could result in decreased revenues, net income, and earnings per share.

We may be unable to make dispositions of assets on favorable terms, or at all.

In 2018, we sold our 3Q Digital business (which we purchased in 2015 for $30 million in cash plus an earn-out of up to $35 million) for $5 million in cash and assignment of the earn-out obligation. In 2016 we sold our Trillium business resulting in a pre-tax loss of $44.5 million. In 2015 we sold our B2B research business resulting in a pre-tax loss of $9.5 million. In the future, we may determine to divest certain assets or businesses consistent with our corporate strategy. The price we obtain for such assets or businesses will be driven by performance of those businesses and the current market demand for such assets, and we may not be able to realize a profit upon sale. If we are unable to make dispositions in a timely manner or at profitable price, our business, net income, and earnings per share could be materially and adversely affected.

We are vulnerable to increases in postal rates and disruptions in postal services.

Our services depend on the USPS and other commercial delivery services to deliver products. Standard postage rates have increased in recent years (most recently in January 2018) and may continue to do so at frequent and unpredictable intervals. Postage rates influence the demand for our services even though the cost of mailings is typically borne by our clients (and is not directly reflected in our revenues or expenses) because clients tend to reduce other elements of marketing spending to offset increased postage costs. Accordingly, future postal increases or disruptions in the operations of the USPS may have an adverse impact on us.

In addition, the USPS has had significant financial and operational challenges recently. In reaction, the USPS has proposed many changes in its services, such as delivery frequency and facility access. These changes, together with others that may be adopted, individually or in combination with other market factors, could materially and negatively affect our costs and ability to meet our clients' expectations.

We are vulnerable to increases in paper prices.

Prices of print materials are subject to fluctuations. Increased paper costs could cause our customers to reduce spending on other marketing programs, or to shift to formats, sizes, or media which may be less profitable for us, in each case potentially materially affecting our revenues and profits.

We could face additional income tax obligations based on tax reform.

The U.S. Tax Cuts and Jobs Act (the "Tax Reform Act") was signed into law on December 22, 2017. The new law made numerous changes to federal corporate tax law that we expect will significantly affect our effective tax rate in future periods. The changes included in the Tax Reform Act are broad and complex. The final transition impacts of the Tax Reform Act may differ from our current estimates, possibly materially, due to, among other things, changes in interpretations of the Tax Reform Act, any legislative action to address questions that arise because of the Tax Reform Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Reform Act, or any updates or changes to estimates that we have utilized to calculate the transition impacts.

Our indebtedness may adversely impact our ability to react to changes in our business or changes in general economic conditions.

On April 17, 2017, we entered into a credit agreement with Texas Capital Bank, N.A. The agreement consists of a two-year $20.0 million credit facility, which we amended on January 9, 2018 to increase the availability under the revolving credit facility from $22.0 million and extended the term of the credit facility by one year to April 17, 2020. See Note C, *Long-Term Debt*, in the Notes to Consolidated Financial Statements for further discussion.

We may incur additional indebtedness in the future and the terms of future arrangements may be less favorable to the company than our previous or current facilities. Our ability to incur indebtedness is also impacted by the the terms of our Series A Convertible Preferred Stock, which limits out indebtedness to the greater of $40.0 million or four times our trailing 12 month EBITDA (measured at the time such indebtedness is incurred). Any failure to obtain new financing arrangements on favorable terms could have a material adverse impact on our liquidity position.

The amount of our indebtedness and the terms under which we borrow money under any future credit facilities or other agreements could have significant consequences for our business. Borrowings may include covenants requiring that we maintain certain financial measures and ratios. Covenant and ratio requirements may limit the manner in which we can conduct our business, and we may be unable to engage in favorable business activities or finance future operations and capital needs. A failure to comply with these restrictions or to maintain the financial measures and ratios contained in the debt agreements could lead to an event of default that could result in an acceleration of indebtedness. In addition, the amount and terms of any future indebtedness could:

- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate, including limiting our ability to invest in our strategic initiatives, and consequently, place us at a competitive disadvantage;
- reduce the availability of our cash flows that would otherwise be available to fund working capital, capital expenditures, acquisitions, and other general corporate purposes; and
- result in higher interest expense in the event of increases in interest rates, as discussed below under the Risk Factor “Interest rate increases could affect our results of operations, cash flows, and financial position.”

We are unlikely to declare cash dividends or repurchase our shares.

Although our board of directors has in the past authorized the payment of quarterly cash dividends on our common stock, we announced in 2016 that we did not plan to declare any further dividends. In addition, although our board has authorized stock purchase programs (and we repurchased shares as recently as 2015), we are unlikely to make any repurchases in the near term. Decisions to pay dividends on our common stock or to repurchase our common stock will be based upon periodic determinations by our board that such dividends or repurchases are both in compliance with all applicable laws and agreements and in the best interest of our stockholders after considering our financial condition and results of operations, the price of our common stock, credit conditions, and such other factors as are deemed relevant by our board. The failure to pay a cash dividend or repurchase stock could adversely affect the market price of our common stock.

Interest rate increases could affect our results of operations, cash flows and financial position.

Interest rate fluctuations in Europe and the U.S. can affect the amount of interest we pay related to our debt and the amount we earn on cash equivalents. Borrowings under our Texas Capital Bank credit facility bear interest at variable rates based upon the prime rate or LIBOR. Our results of operations, cash flows, and financial position could be materially or adversely affected by significant increases in interest rates. We also have exposure to interest rate fluctuations in the U.S., specifically money market, commercial paper, and overnight time deposit rates, as these affect our earnings on excess cash. Even with the offsetting increase in earnings on excess cash in the event of an interest rate increase, we cannot be assured that future interest rate increases will not have a material adverse impact on our business, financial position, or operating results.

We are subject to risks associated with operations outside the U.S.

Harte Hanks conducts business outside of the U.S. During 2017, approximately 13.8% of our revenues were derived from operations outside the U.S., primarily Europe and Asia. We may expand our international operations in the future as part of our growth strategy. Accordingly, our future operating results could be negatively affected by a variety of factors, some of which are beyond our control, including:

- changes in local, national, and international legal requirements or policies resulting in burdensome government controls, tariffs, restrictions, embargoes, or export license requirements;
- higher rates of inflation;
- the potential for nationalization of enterprises;
- less favorable labor laws that may increase employment costs and decrease workforce flexibility;
- potentially adverse tax treatment;
- less favorable foreign intellectual property laws that would make it more difficult to protect our intellectual property from misappropriation;
- more onerous or differing data privacy and security requirements or other marketing regulations;
- longer payment cycles;
- social, economic, and political instability; and
- the differing costs and difficulties of managing international operations.

In addition, exchange rate fluctuations may have an impact on our future costs or on future cash flows from foreign investments. We have not entered into any foreign currency forward exchange contracts or other derivative instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates. The various risks that are inherent in doing business in the U.S. are also generally applicable to doing business anywhere else, and may be exacerbated by the difficulty of doing business in numerous sovereign jurisdictions due to differences in culture, laws, and regulations.

We have identified material weaknesses in our internal control over financial reporting that could, if not remediated, result in material misstatements in our financial statements. In addition, current and potential stockholders could lose confidence in our financial reporting, which could cause our stock price to decline.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. We identified control deficiencies in our financial reporting process that constitute material weaknesses; as of December 31, 2017, many of those material weaknesses were not yet remediated.

As discussed in *Part II, Item 9A*, we identified material weaknesses in the following areas at December 31, 2017; (i) each of five components of internal control as defined by COSO (control environment, risk assessment, control activities, information and communication, and monitoring), and (ii) the effectiveness of internal controls over the completeness and accuracy of data used to recognize and record revenue and related accounts such as accounts receivable, accrued revenue and deferred revenue, the precision of management's review of controls over revenue, and the identification of relevant systems used to process revenue transactions. As a result of these material weaknesses management has determined that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2017.

In light of the material weaknesses identified, we performed additional analyses and procedures to ensure that our consolidated financial statements were prepared in accordance with GAAP and fairly reflected our financial position and results of operations as of and for the year ended December 31, 2017. Prior to our December 31, 2016 fiscal year end, we began taking a number of actions in order to remediate the material weaknesses described above, including developing a plan to redesign processes and controls, and in 2017 we engaged specialists to assist in the comprehensive review, design, and implementation of new internal controls. Improvements in the design and operating effectiveness of internal controls over financial reporting that we have affected to date have led to the successful remediation of several previously disclosed material weaknesses including contingent consideration, recoverability of deferred tax assets, and financial close and reporting. Our remediation efforts will continue into the fiscal year ending December 31, 2018. We expect to incur additional costs remediating these material weaknesses.

Although we believe we are taking appropriate actions to remediate the control deficiencies identified and to strengthen our internal control over financial reporting, we may need to take additional measures to fully mitigate the material weaknesses discussed above. Measures to improve our internal controls may not be sufficient to ensure that our internal controls are effective or that the identified material weaknesses will not result in a material misstatement of our annual or interim consolidated financial statements. In addition, other material weaknesses or deficiencies may be identified in the future. If we are unable to correct material weaknesses in internal controls in a timely manner, our ability to record, process, summarize, and report financial information accurately and within the time periods specified in the rules and forms of the SEC will be adversely affected. This failure could negatively affect the market price and trading liquidity of our common stock, cause investors to lose confidence in our reported financial information, subject us to civil and criminal investigations and penalties, and adversely impact our business and financial condition.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Over time, controls may become inadequate because changes in conditions or deterioration in the degree of compliance with policies or procedures may occur. Implementation of new technology related to the control system may result in misstatements due to errors that are not detected and corrected during testing. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Fluctuation in our revenue and operating results and other factors may impact the volatility of our stock price.

The price at which our common stock has traded in recent years has fluctuated greatly and has declined significantly. Our common stock price may continue to be volatile due to a number of factors including the following (some of which are beyond our control):

- variations in our operating results from period to period and variations between our actual operating results and the expectations of securities analysts, investors, and the financial community;
- unanticipated developments with client engagements or client demand, such as variations in the size, budget, or progress toward the completion of engagements, variability in the market demand for our services, client consolidations, and the unanticipated termination of several major client engagements;
- announcements of developments affecting our businesses;
- competition and the operating results of our competitors;
- the overall strength of the economies of the markets we serve and general market volatility; and
- other factors discussed elsewhere in this Item 1A, “Risk Factors.”

As a result of these and other factors, investors in our common stock may not be able to resell their shares at or above their original purchase price.

Our certificate of incorporation and bylaws contain anti-takeover protections that may discourage or prevent strategic transactions, including a takeover of our company, even if such a transaction would be beneficial to our stockholders

Provisions contained in our certificate of incorporation and bylaws, in conjunction with provisions of the Delaware General Corporation Law, could delay or prevent a third party from entering into a strategic transaction with us, even if such a transaction would benefit our stockholders. For example, our certificate of incorporation and bylaws provide for a staggered board of directors, do not allow written consents by stockholders, and have strict advance notice and disclosure requirements for nominees and stockholder proposals.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our business is conducted in facilities worldwide containing aggregate space of approximately 1.3 million square feet. All facilities are held under leases, which expire at dates through 2025.

ITEM 3. LEGAL PROCEEDINGS

Information regarding legal proceedings is set forth in Note I, *Commitments and Contingencies*, of the “Notes to Consolidated Financial Statements” and is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock

Our common stock is listed on the NYSE (symbol: HHS). The reported high and low quarterly closing stock price ranges for 2017 and 2016 were as follows:

	2017		2016	
	High	Low	High	Low
First Quarter	$ 16.40	$ 13.50	$ 37.20	$ 25.30
Second Quarter	14.70	9.70	27.40	8.50
Third Quarter	10.70	7.60	19.30	14.20
Fourth Quarter	10.70	8.50	18.30	12.80

The stock prices reflected above reflect the retroactive effect of the Reverse Stock Split for all periods presented. See Note A, *Significant Accounting Policies*, in the Notes to Consolidated Financial Statements for further information.

We paid a dividend of 85 cents per share in the first quarter of 2016, as adjusted to reflect the Reverse Stock Split. We did not pay any dividends on our common stock in 2017 and currently intend to retain any future earnings and do not expect to pay dividends on our common stock. Any future dividend declaration can be made only upon, and subject to, approval of our Board, based on its business judgment.

As of January 31, 2018, there are approximately 1,800 common stockholders of record.

All common stock, equity, share and per share amounts have been retroactively adjusted to reflect a one-for-ten reverse stock split which was effective January 31, 2018.

Issuer Purchases of Equity Securities

The following table contains information about our purchases of equity securities during the fourth quarter of 2017:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan (2)	Maximum Dollar Amount that May Yet Be Spent Under the Plan
October 1 - 31, 2017	140	$ 10.11	—	$ 11,437,544
November 1 - 30, 2017	—	$ —	—	$ 11,437,544
December 1 - 31, 2017	—	$ —	—	$ 11,437,544
Total	140	$ 10.11	—	

(1) Total number of shares purchased includes shares, if any, (i) purchased as part of our publicly announced stock repurchase program, and (ii) pursuant to our 2013 Omnibus Incentive Plan and applicable inducement award agreements with certain executives, withheld to pay withholding taxes upon the vesting of shares.

(2) During the fourth quarter of 2017, we did not purchase any shares of our common stock through our stock repurchase program that was publicly announced in August 2014. Under this program, from which shares can be purchased in the open market, our Board has authorized us to spend up to $20.0 million to repurchase shares of our outstanding common stock. As of December 31, 2017, we have repurchased 150,667 shares and spent $8.6 million under this authorization. Through December 31, 2017, we had repurchased a total of 6,788,798 shares at an average price of $181.02 per share under this program and previously announced programs.

Comparison of Stockholder Returns

The following graph compares the cumulative total return of our common stock during the period December 31, 2012 to December 31, 2017 with the Standard & Poor’s 500 Stock Index ("S&P 500 Index") and with our peer group.

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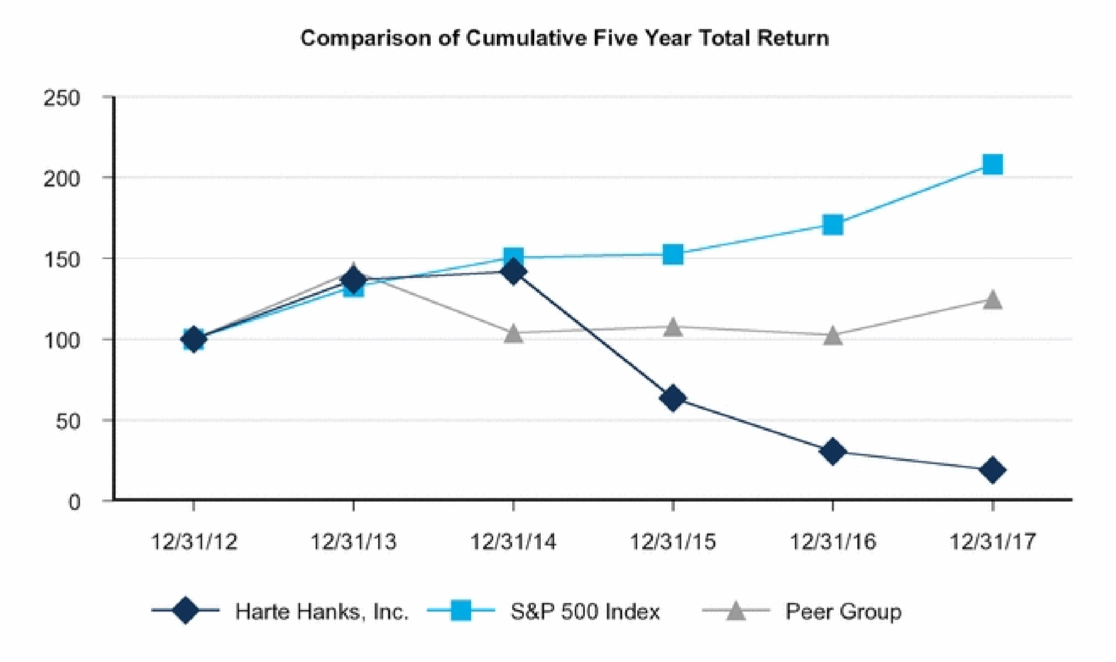
Our current peer group includes: Acxiom Corporation, Advisory Board Company (through acquisition by Optuminsight in November 2017), CMTSU Liquidation, Inc., Forrester Research, Inc., Hackett Group, Inc., HubSpot, Inc., Information Services Group, Inc., MDC Partners, Inc., National CineMedia, Inc., NCI, Inc. (through acquisition by HIG Capital LLC in August 2017), NeuStar, Inc. (through acquisition by Golden Gate Private Equity in August 2017), Rocket Fuel, Inc. (through acquisition by Sizmek in September 2017), Sykes Enterprises, Inc., and TeleTech Holdings, Inc.

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

The graph depicts the results of investing $100 in our common stock, the S&P 500 Index and the peer groups at closing prices on December 31, 2012 and assumes the reinvestment of dividends.



	ANNUAL RETURN PERCENTAGE Years Ending				
Company Name / Index	**Dec 2013**	**Dec 2014**	**Dec 2015**	**Dec 2016**	**Dec 2017**
Harte Hanks, Inc.	36.62	3.88	(55.17)	(52.11)	(37.17)
S&P 500 Index	32.39	13.69	1.38	11.96	21.83
Peer Group	42.11	(26.98)	4.74	(5.61)	21.54

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our summary historical financial information for the periods ended and as of the dates indicated. You should read the following historical financial information along with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in this Form 10-K. The statement of comprehensive income data for the years ended December 31, 2014 and 2013, and the Balance sheet data as of December 31, 2015, 2014, and 2013 were derived from audited consolidated financial statements that are not included in this annual form 10-K. All financial information presented below excludes amounts related to our discontinued Trillium operations.

In thousands, except per share amounts	2017	2016	2015	2014	2013
Statement of Comprehensive Income Data					
Revenues	$ 383,906	$ 404,412	$ 444,166	$ 499,444	$ 503,760
Operating income (loss) from continuing operations	(40,865)	(53,837)	(197,953)	28,319	31,656
Income (loss) from continuing operations	$ (41,860)	$ (89,778)	$ (181,066)	$ 13,754	$ 11,637
Earnings (loss) from continuing operations per common share—diluted	$ (6.76)	$ (14.60)	$ (29.37)	$ 2.20	$ 1.86
Weighted-average common and common equivalent shares outstanding—diluted	6,192	6,149	6,164	6,265	6,280
Cash dividends per share	$ —	$ 0.85	$ 3.40	$ 3.40	$ 2.55
Balance sheet data (at end of period)					
Total assets	130,812	213,437	414,413	643,613	684,613
Total debt	—	—	77,105	82,123	97,079
Total stockholders’ equity (deficit)	(34,635)	2,656	140,316	326,676	349,054

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note About Forward-Looking Statements

This report, including this Management’s Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), contains “forward-looking statements” within the meaning of the federal securities laws. All such statements are qualified by the cautionary note included under Item 1A above, which is provided pursuant to the safe harbor provisions of Section 27A of the 1933 Act and Section 21E of the 1934 Act. Actual results may vary materially from what is expressed in or indicated by the forward-looking statements.

Overview

The following MD&A section is intended to help the reader understand the results of operations and financial condition of Harte Hanks. This section is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes to the consolidated financial statements.

Harte Hanks partners with clients to deliver relevant, connected, and quality customer interactions. Our approach starts with discovery and learning, which leads to customer journey mapping, creative and content development, analytics, and data management, and ends with execution and support in a variety of digital and traditional channels. We do something powerful: we produce engaging and memorable customer interactions to drive business results for our clients, which is why Harte Hanks is known for developing better customer relationships and experiences and defining interaction-led marketing.

Our services offer a wide variety of integrated, multi-channel, data-driven solutions for top brands around the globe. We help our clients gain insight into their customers’ behaviors from their data and use that insight to create innovative multi-channel marketing programs to deliver a return on marketing investment. We believe our clients’ success is determined not only by how good their tools are, but how well we help them use the tools to gain insight and analyze their consumers. This results in a strong and enduring relationship between our clients and their customers. We offer a full complement of capabilities and resources to provide a broad range of marketing services, in media from direct mail to social media, including:

- agency and digital services;
- database marketing solutions and business-to-business lead generation;

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- direct mail, logistics, and fulfillment; and
- contact centers.

Previously, Harte Hanks also provided data quality solutions through Trillium Software, Inc. and its subsidiaries (collectively "Trillium"). On December 23, 2016, we sold the equity interests of our Trillium operations for gross proceeds of $112.0 million. This transaction resulted in an after-tax loss of $39.9 million. Because Trillium represented a distinct business unit with operations and cash flows that can clearly be distinguished, both operationally and for financial purposes, from the rest of Harte Hanks, the results of the Trillium operations are reported as discontinued operations for all periods presented. Results of the remaining Harte Hanks business are reported as continuing operations.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations gives retroactive effect to the Reverse Stock Split for all periods presented, unless otherwise noted. See Note A, *Significant Accounting Policies*, in the Notes to Consolidated Financial Statements for further information.

We are affected by the general, national, and international economic and business conditions in the markets where we and our customers operate. Marketing budgets are largely discretionary in nature, and as a consequence are easier for our clients to reduce in the short-term than other expenses. Our revenues are also affected by the economic fundamentals of each industry that we serve, various market factors, including the demand for services by our clients, and the financial condition of and budgets available to specific clients, among other factors. We remain committed to making the investments necessary to execute our multichannel strategy while also continuing to adjust our cost structure to reduce costs in the parts of the business that are not growing as fast.

We continued to face a challenging competitive environment in 2017. The sale of Trillium in 2016, the sale of 3Q Digital in 2018, and our recent preferred stock financing from Wipro, LLC are all parts of our efforts to prioritize our investments and focus on our core business of optimizing our clients' customer journey across an omni-channel delivery platform. We expect these actions will enhance our liquidity and financial flexibility. For additional information see Liquidity and Capital Resources. We have taken actions to return the business to profitability and improve our cash, liquidity, and financial position. This includes workforce restructuring, making investments targeted at improving product offerings, and implementing expense reductions.

Results of Continuing Operations

As discussed in Note N, *Discontinued Operations*, of the Notes to Consolidated Financial Statements we sold the equity interests of our Trillium operations on December 23, 2016. Therefore, the operating results of Trillium, including the loss on the sale, is reported as discontinued operations in the Consolidated Financial Statements, and are excluded from Management's Discussion and Analysis of Financial Condition and Results of Operations below.

Operating results from our continuing operations were as follows:

	Year Ended December 31,				
In thousands, except per share amounts	**2017**	**% Change**	**2016**	**% Change**	**2015**
Revenues	$ 383,906	-5.1 %	$ 404,412	-9.0 %	$ 444,166
Operating expenses	424,771	-7.3 %	458,249	-28.6 %	642,119
Operating loss	$ (40,865)	24.1 %	$ (53,837)	72.8 %	$ (197,953)
Operating margin	(10.6)%		(13.3)%		(44.6)%
Loss from continuing operations	$ (41,860)	53.4 %	$ (89,778)	50.4 %	$ (181,066)
Diluted EPS from continuing operations	$ (6.76)	53.7 %	$ (14.60)	50.3 %	$ (29.37)

Year ended December 31, 2017 vs. Year ended December 31, 2016

Revenues

Revenues from continuing operations were $383.9 million in the year ended December 31, 2017, compared to $404.4 million in the year ended December 31, 2016. Revenues declined in our retail, healthcare, and B2B and retail verticals by $14.5 million, or 13.2%, $6.1 million, or 20.8% and $3.8 million, or 4.3%, respectively, primarily as the result of reduced mail volumes. These decreases were offset by an increase in our financial vertical of $3.1 million, or 5.4%, compared to the year ended December 31, 2016 due to increased agency services with a large commercial bank.

Among other factors, our revenue performance will depend on general economic conditions in the markets we serve and how successful we are at maintaining and growing business with existing clients, acquiring new clients, and meeting our clients' demands. We believe that, in the long-term, an increasing portion of overall marketing and advertising expenditures will be moved from other advertising media to targeted media, and that our business will benefit as a result. Targeted media advertising results can be more effectively tracked, enabling measurement of the return on marketing investment.

Operating Expenses

Operating expenses from continuing operations were $424.8 million in the year ended December 31, 2017, compared to $458.2 million in 2016. This $33.5 million year-over-year decline was the result of a lower goodwill impairment recorded in 2017 compared to 2016. Labor costs decreased by $15.0 million, or 6.1%, primarily due to reduced headcount. Additionally, in 2017 we experienced a decrease in production and distribution costs of $8.0 million, or 6.9%, primarily driven by lower outsourced costs and freight costs resulting from lower direct mail volumes. Selling, general and administrative costs decreased $4.4 million as a result of decreased employee travel and recruiting expenses. Goodwill impairment recorded in 2017 was $4.2 million lower compared to 2016.

Our largest cost components are labor, outsourced costs, and mail transportation expenses. Each of these costs is somewhat variable and tends to fluctuate with revenues and the demand for our services. Mail transportation rates have increased over the last few years due to demand and supply fluctuations within the transportation industry. Future changes in mail transportation expenses will continue to impact our total production costs and total operating expenses, and may have an impact on future demand for our supply chain management services.

Postage costs of mailings are borne by our clients and are not directly reflected in our revenues or expenses.

Operating Loss

Operating loss from continuing operations was $40.9 million in the year ended December 31, 2017, compared to $53.8 million in the year ended December 31, 2016. The $13.0 million decrease in operating loss reflects the impact of a decrease in revenue of $20.5 million, offset by a larger $33.5 million decrease in operating expenses.

Year ended December 31, 2016 vs. Year ended December 31, 2015

Revenues

Revenues from continuing operations were $404.4 million in the year ended December 31, 2016, compared to $444.2 million in the year ended December 31, 2015. Revenue from our healthcare and retail verticals decreased $15.6 million, or 34.8%, and $9.3 million, or 7.8%, respectively, as the result of lost clients and clients reducing their marketing spend (in particular, reducing mail volumes). Our consumer vertical decreased $6.9 million, or 7.3%, compared to the prior year, from the reduction of call center work supporting streaming enrollment services for an entertainment client. Revenue from our B2B vertical declined $5.6 million, or 6.1%, primarily driven by the loss of an electronic company client. Our financial services vertical decreased $4.3 million, or 7.1%, compared to the year ended December 31, 2015, due to reduced mail volumes. These decreases are slightly offset by an increase in our transportation vertical of $2.0 million, or 6.5%, compared to the year ended December 31, 2015.

Operating Expenses

Operating expenses from continuing operations were $458.2 million in the year ended December 31, 2016, compared to $642.1 million in 2015. This $183.9 million year over year decrease is primarily a result of a goodwill impairment loss of $209.9 million recorded in 2015 versus an impairment loss of $38.7 million in 2016. In addition, we experienced a decrease in production and distribution costs of $24.8 million, or 17.5%, primarily driven by lower fuel and freight costs, as well as decreased outsourced costs resulting from lower mail volumes. The decrease was partially offset by increased labor costs of $12.0 million, or 5.1%, primarily due to increased severance costs and non-recurring database development labor expense.

Operating Loss

Operating loss from continuing operations was $53.8 million in the year ended December 31, 2016, compared to $198.0 million in the year ended December 31, 2015. The $144.1 million decrease in operating loss reflects the impact of a decrease in revenue of $39.8 million, offset by a $183.9 million decrease in operating expenses.

Other Expense

Year ended December 31, 2017 vs. Year ended December 31, 2016

Total other expense was $10.9 million in the year ended December 31, 2017, compared to $15.3 million in 2016. This $4.4 million decline was primarily the result of $7.0 million in expense for an adjustment to the fair value of the contingent consideration in 2016. Interest expense increased $1.4 million, or 39.7%, in 2017 compared to 2016 primarily due to the reclassification of interest expense for the 2016 Secured Credit Facility to discontinued operations in accordance with ASC 205-20-45-6 in 2016.

Year ended December 31, 2016 vs. Year ended December 31, 2015

Total other expense was $15.3 million in the year ended December 31, 2016, compared to $20.5 million in 2015. This decrease is primarily the result of a $9.5 million loss on sale of our B2B research business in 2015, partially offset by $7.0 million in expense for an adjustment to the fair value of the contingent consideration. Interest expense decreased $1.6 million, or 31.1%, in 2016 compared to 2015 primarily due to the reclassification of interest expense for the 2016 Secured Credit Facility to discontinued operations in accordance with ASC 205-20-45-6. These decreases were offset by foreign currency losses of $1.0 million in the year ended December 31, 2016.

Income Taxes

Year ended December 31, 2017 vs. Year ended December 31, 2016

Our 2017 income tax benefit of $9.9 million resulted in an effective income tax rate of 19.1%. Unfavorably impacting our benefit was nondeductible goodwill associated with our impairment loss and the change in valuation allowance due to realization of deferred tax assets for current year operations, the impact of which were $6.0 million and $2.3 million, respectively. Favorably impacting our benefit was the enactment of the U.S. Tax Cuts and Jobs Act (the "Tax Reform Act"), the impact of which was a $3.4 million credit. This was the result of remeasurement of our deferred tax balances for the reduction in the corporate tax rate from 35% to 21%, and remeasurement of the valuation allowance for application of provisions in the Tax Reform Act. This compares to our 2016 income tax expense of $20.6 million that resulted in a negative effective income tax rate of 29.9%. Unfavorably impacting our 2016 expense was nondeductible goodwill associated with our impairment loss and the recognition of a deferred tax valuation allowance, the impact of which were $6.3 million and $34.5 million, respectively.

Year ended December 31, 2016 vs. Year ended December 31, 2015

Our 2016 income tax expense of $20.6 million resulted in a negative effective income tax rate of 29.9%. Unfavorably impacting our expense was nondeductible goodwill associated with our impairment loss and the recognition of a deferred tax valuation allowance, the impact of which were $6.3 million and $34.5 million, respectively. This compares to our 2015 income tax benefit of $37.4 million that resulted in an effective income tax rate of 17.1%. Benefiting our 2015 rate was having a greater proportion of our income in jurisdictions outside the United States having tax rates below 35%.

Loss Per Share from Continuing Operations

Year ended December 31, 2017 vs. Year ended December 31, 2016

We recorded a loss from continuing operations of $41.9 million and diluted loss per share from continuing operations of $6.76. These results compare to a loss from continuing operations of $89.8 million and diluted loss per share from continuing operations of $14.60 in 2016. The decrease in loss from continuing operations is primarily the result of a $38.7 million impairment loss related to goodwill recorded in 2016 versus a $34.5 million impairment loss in 2017.

Year ended December 31, 2016 vs. Year ended December 31, 2015

We recorded a loss from continuing operations of $89.8 million and diluted loss per share from continuing operations of $14.60 in 2016. These results compare to a loss from continuing operations of $181.1 million and diluted loss per share from continuing operations of $29.37 in 2015. The decrease in loss from continuing operations is primarily the result of a $209.9 million impairment loss related to goodwill recorded in 2015 versus a $38.7 million impairment loss in 2016.

Liquidity and Capital Resources

Sources and Uses of Cash

Our cash and cash equivalent balances were $8.4 million, $46.0 million, and $16.6 million as of December 31, 2017, 2016, and 2015, respectively. Our principal sources of liquidity are cash on hand, cash provided by operating activities, and borrowings. Our cash is primarily used for general corporate purposes, working capital requirements and capital expenditures.

Operating Activities

Net cash used for operating activities was $30.8 million for the year ended December 31, 2017. This compares to cash provided by operating activities of $14.6 million and $33.3 million for the years ending December 31, 2016 and 2015, respectively. The $45.4 million decrease in net cash provided by operating activities in 2017 was primarily the result of the payment of income taxes associated with the sale of the Trillium business unit. The $18.7 million decrease in net cash provided by operating activities in 2016 was primarily the result of a decrease of $51.3 million in cash provided by discontinued operations.

Investing Activities

Net cash used in investing activities was $5.7 million for the year ended December 31, 2017. This compares to cash provided by investing activities of $99.7 million for the year ending December 31, 2016 and cash used in investing activities of $36.1 million for the year ending December 31, 2015. The $105.4 million decrease in net cash provided by investing activities in 2017 was primarily the result the sale of Trillium in for gross proceeds of $112.0 million reflected in the cash provided by investing activities within discontinued operations in 2016. The gross proceeds of $112.0 million received in the sale of Trillium is reflected in the $135.8 million increase in cash provided by investing activities in 2016 compared to 2015. The increase is also the result of the favorable impact of lower acquisition expenditures, as we purchased Aleutian Consulting for $3.5 million in 2016 but spent $29.9 million to purchase 3Q Digital in 2015.

Financing Activities

Net cash used in financing activities was $1.5 million, $85.3 million, and $31.9 million for the years ended December 31, 2017, 2016, and 2015, respectively. The $83.8 million decrease in cash outflows in 2017 compared to 2016 was driven by the repayment of debt with the proceeds of the Trillium sale in late 2016. The primary cause of the $53.4 million increase in cash outflows in 2016 compared to 2015 was due to the Trillium sale in 2016 along with the of the suspension of dividend payments in 2016.

Credit Facilities

On March 10, 2016, we entered a secured credit facility with Wells Fargo Bank, N.A. as Administrative Agent. This facility consisted of a maximum $65.0 million revolving credit facility, and a $45.0 million term loan (collectively, the "2016 Secured Credit Facility"). A portion of the proceeds from the 2016 Secured Credit Facility was used to pay off previous debt. The 2016 Secured Credit Facility was repaid in full using the proceeds of the Trillium sale and the 2016 Secured Credit Facility was terminated.

On April 17, 2017, we entered the Texas Capital Credit Facility with Texas Capital Bank, N.A. The Texas Capital Credit Facility consisted of a two-year $20 million revolving credit facility secured by substantially all of our assets and guaranteed by HHS Guaranty, LLC, an entity formed by certain members of the Shelton family, descendants of one of the company's founders. The credit facility adds additional financial flexibility to the company and is used for working capital and general corporate purposes.

On January 9, 2018, we entered an amendment (the "First Amendment") to the Texas Capital Credit Facility. The First Amendment (i) increases the availability under the revolving credit facility from $20 million to $22 million and (ii) extended the Texas Capital Credit Facility one year to April 17, 2020. The Credit Facility remains secured by substantially all of our assets. Our fee for the collateral provided by HHS Guaranty, LLC was also changed from an annual fee of $0.5 million to 0.5% of collateral actually pledged. We expect that the fees payable to HHS Guaranty will be substantially similar in amount. See Note C, *Long-Term Debt*, in the Notes to Consolidated Financial Statements for further discussion.

Contractual Obligations

Contractual obligations at December 31, 2017 are as follows:

In thousands	Total	2018	2019	2020	2021	2022	Thereafter
Debt	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Interest on debt	115	87	28	—	—	—	—
Operating lease obligations	31,476	8,753	8,500	6,495	3,889	2,016	1,823
Capital lease obligations	992	506	453	32	1	—	—
Unfunded pension plan benefit payments	17,511	1,685	1,674	1,703	1,731	1,775	8,943
Total contractual cash obligations	$ 50,094	$ 11,031	$ 10,655	$ 8,230	$ 5,621	$ 3,791	$ 10,766

At December 31, 2017, we had total letters of credit in the amount of $2.8 million outstanding. No amounts were drawn against these letters of credit at December 31, 2017. These letters of credit renew annually and exist to support insurance programs relating to workers' compensation, automobile, and general liability insurance. We had no other off-balance sheet arrangements at December 31, 2017.

Dividends

We paid a quarterly dividend of 85 cents per share in the first quarter of 2016 and did not pay any dividends in 2017. We currently intend to retain any future earnings and do not expect to pay dividends on our common stock. Any future dividend declaration can be made only upon, and subject to, approval of our Board, based on its business judgment.

Share Repurchase

During 2017, we did not repurchase any shares of our common stock under our current stock repurchase program that was publicly announced in August 2014. Under our current program we are authorized to spend up to $20.0 million to repurchase shares of our outstanding common stock. At December 31, 2017, we had authorization of $11.4 million under this program. From 1997 through December 31, 2017, we have repurchased 6.8 million shares for an aggregate of $1.2 billion.

Outlook

We consider such factors as total cash and cash equivalents, current assets, current liabilities, total debt, revenues, operating income, cash flows from operations, investing activities, and financing activities when assessing our liquidity. Our management of cash is designed to optimize returns on cash balances and to ensure that it is readily available to meet our operating, investing, and financing requirements as they arise.

We believe that there are not any conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern for the 12 months following the issuance of the financial statements.

Critical Accounting Policies

Critical accounting policies are defined as those that, in our judgment, are most important to the portrayal of our company's financial condition and results of operations and which require complex or subjective judgments or estimates. The areas that we believe involve the most significant management estimates and assumptions are detailed below. Actual results could differ materially from those estimates under different assumptions and conditions.

Our Significant Accounting policies are described in Note A, *Significant Accounting Policies*, in the Notes to Consolidated Financial Statement.

Revenue Recognition

Application of various accounting principles in U.S. GAAP related to measurement and recognition of revenue requires us to make significant judgments and estimates. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine appropriate accounting.

We recognize revenue when evidence of an arrangement exists, the price is fixed or determinable, the collectability is reasonably assured, and the delivery of service has occurred. Certain client programs provide for adjustments to billings based upon whether we achieve certain performance criteria. In these circumstances, revenue is recognized when the foregoing conditions are met. We record revenue net of any taxes collected from customers and subsequently remitted to governmental authorities. Any payments received in advance of the performance of services or delivery of the product are recorded as deferred revenue until such time as the services are performed or the product is delivered. Costs incurred for search engine marketing solutions and postage costs of mailings are billed to our clients and are not directly reflected in our revenue.

We are currently evaluating the impact of the new revenue recognition standard on our consolidated financial statements. For additional information please refer to Note A, *Significant Accounting Policies*, is the Notes to Consolidated Financial Statements.

Goodwill and Other Intangible Assets

We test goodwill for impairment annually or more frequently if events or circumstances indicate that it is more likely than not that goodwill might be impaired. Such events could include changes in the business climate in which we operate, attrition of key personnel, the current volatility in the capital markets, the company's market capitalization compared to our book value, our recent operating performance, and financial projections.

For the fiscal 2017 test performed as of November 30, we prepared the analysis using a one-step approach as we have early adopted ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The projected cash flows declined in the analysis, which corresponds to the continued decline in the business. As a result of the declining performance, we determined that the carrying value exceeded the fair value and the full carrying value of goodwill should be written-off, resulting in an impairment charge of $34.5 million.

Our determination of estimated fair value is based on the enterprise value approach. These methods contain uncertainties as they require management to make significant assumptions and judgments. Significant assumptions and judgments used in estimating fair value include:

- an estimated discount rate such as the cost of equity or the weighted average cost of capital ("WACC"),
- management's assumptions of future performance and historical operating results, and
- the economic outlook as of the valuation date.

Income Taxes

We are subject to income taxes in the United States and numerous other jurisdictions. Significant judgment is required in determining our provision for income taxes and income tax assets and liabilities, including evaluating uncertainties in the application of accounting principles and complex tax laws.

We record a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. For additional information on the valuation allowance see Note D, *Income Taxes*, in the Notes to Consolidated Financial Statements.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Although we believe that we have adequately reserved for our uncertain tax positions, we can provide no assurance that the final tax outcome of these matters will not be materially different. We adjust these reserves when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and operating results. The provision for income taxes includes the effects of any reserves that we believe are appropriate, as well as the related net interest and penalties.

Recent Accounting Pronouncements

See Note A, *Significant Accounting Policies,* of the Notes to Consolidated Financial Statements for a discussion of certain accounting standards that we have recently adopted and certain accounting standards that we have not yet been required to adopt and may be applicable to our future financial condition and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk includes the risk of loss arising from adverse changes in market rates and prices. We face market risks related to interest rate variations and to foreign exchange rate variations. From time to time, we may utilize derivative financial instruments to manage our exposure to such risks.

The interest rate on the Texas Capital Credit Facility is variable based upon the prime rate or LIBOR and, therefore, is affected by changes in market interest rates. We estimate that a 100 basis point increase in market interest rates on the actual borrowings in 2017 would have an immaterial impact on our interest expense. At December 31, 2017, the company did not have any outstanding debt. The nature and amount of our borrowings can be expected to fluctuate as a result of business requirements, market conditions, and other factors. Due to our overall debt level and cash balance at December 31, 2017, anticipated cash flows from operations, and the various financial alternatives available to us, we do not believe that we currently have significant exposure to market risks associated with an adverse change in interest rates. At this time, we have not entered into any interest rate swap or other derivative instruments to hedge the effects of adverse fluctuations in interest rates.

Our earnings are also affected by fluctuations in foreign currency exchange rates as a result of our operations in foreign countries. Our primary exchange rate exposure is to the Euro, British Pound Sterling, and Philippine Peso. We monitor these risks throughout the normal course of business. The majority of the transactions of our U.S. and foreign operations are denominated in the respective local currencies. Changes in exchange rates related to these types of transactions are reflected in the applicable line items making up operating income in our Consolidated Statements of Comprehensive Income (Loss). Due to the current level of operations conducted in foreign currencies, we do not believe that the impact of fluctuations in foreign currency exchange rates on these types of transactions is significant to our overall annual earnings. A smaller portion of our transactions are denominated in currencies other than the respective local currencies. For example, intercompany transactions that are expected to be settled in the near-term are denominated in U.S. Dollars. Since the accounting records of our foreign operations are kept in the respective local currency, any transactions denominated in other currencies are accounted for in the respective local currency at the time of the transaction. Any foreign currency gain or loss from these transactions, whether realized or unrealized, results in an adjustment to income, which is recorded in “Other, net” in our Consolidated Statements of Comprehensive Income (Loss). Transactions such as these amounted to $0.4 million and $1.0 million in pre-tax currency transaction losses in 2017 and 2016 , respectively. At this time, we are not party to any foreign currency forward exchange contracts or other derivative instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

We do not enter into derivative instruments for any purpose other than cash flow hedging. We do not speculate using derivative instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements required to be presented under Item 8 are presented in the Consolidated Financial Statements and the notes thereto beginning at page 38 of this Form 10-K (Financial Statements).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act”) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our CEO (CEO), CFO (CFO), and Corporate Controller as appropriate to allow timely decisions regarding required disclosure.

Our management, including our CEO, CFO, and Corporate Controller evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of December 31, 2017, the end of the period covered by this Annual Report on form 10-K. Based upon such evaluation, our CEO, CFO, and Corporate Controller concluded that our disclosure controls and procedures were not effective due to the material weaknesses in our internal controls over financial reporting that are described below.

Notwithstanding the material weaknesses described below, based on the additional analysis and other post-closing procedures performed, we believe the consolidated financial statements included in this Annual Report on Form 10-K are fairly presented in all material respects, in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Our internal control over financial reporting is a process designed by, or under the supervision of our CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. GAAP.

Management evaluated, under the supervision of our CEO, CFO, and Corporate Controller, the design and effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). Based on this assessment, management concluded that internal control over financial reporting was not effective because material weaknesses existed at December 31, 2017 as described below.

A material weakness, as defined in the Exchange Act Rule 12b-2, is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. We identified material weaknesses in each of the following areas.

Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring

We identified deficiencies in aggregate that consitute material weaknesses in each of the five components of internal control as defined by COSO (control environment, risk assessment, control activities, information and communication and monitoring). In particular, controls related to the following were not effectively designed:

Control Environment

- We did not properly staff (in amount and with appropriate levels of experience and training) for the company’s accounting and reporting requirements, which has also affected our evaluation process to identify the impact to our consolidated financial statements of adopting ASU No. 2014-09, *Revenue from Contracts with Customers*. The Company is required to adopt the new standard effective January 1, 2018. Without having substantially completed the impact assessment of the new standard on our consolidated financial statements, there is more than a remote likelihood that a material misstatement and/or disclosure omission will not be prevented or detected in our interim or annual financial statements with periods beginning January 1, 2018.
- We did not sufficiently establish directives, guidance, and controls to enable management and other personnel to understand and carry out their internal control responsibilities.

Risk Assessment

- We did not design and maintain internal controls that were effective in identifying, assessing and addressing risks that significantly affect our financial statements or the effectiveness of the internal controls over financial reporting. Specifically, we did not modify our controls to sufficiently address changes in risks of material misstatement as a result of changes in our operations, organizational structure and operating environment.

Information and Communication

- We did not design and maintain effective controls to obtain, generate and communicate relevant and accurate information to support the function of internal control over financial reporting. Specifically, we did not identify all relevant information systems in support of our accounting and financial reporting processes.
- We did not use an adequate level of precision in our review of information used in certain controls.

Monitoring

- We did not design and maintain effective monitoring of compliance with established accounting policies, procedures and controls. This weakness included our failure to design and operate effective procedures and controls whose purpose is to evaluate and monitor the effectiveness of our individual control activities.

These deficiencies are pervasive in nature and create a reasonable possibility that a material misstatement of the annual or interim financial statements would not have been prevented or detected on a timely basis. Further, the above material weaknesses contributed to the following material weakness at the control-activity level:

Revenue Recognition

Management did not design and maintain effective controls over the completeness and accuracy of data used to recognize and record revenue and related accounts such as accounts receivable, accrued revenue and deferred revenue, the precision of management’s review of controls over revenue, and the identification of relevant systems used to process revenue transactions.

Deloitte & Touche LLP, our independent registered public accounting firm, has issued an audit report on the effectiveness of the company’s internal control over financial reporting as of December 31, 2017.

Changes in Internal Control over Financial Reporting

Improvements in the design and operating effectiveness of internal controls over financial reporting that we have affected to date have led to the successful remediation of several previously disclosed material weaknesses including contingent consideration, recoverability of deferred tax assets, and financial close and reporting. Other than the material weaknesses discussed above, and the successful remediation of previously disclosed material weaknesses related to contingent consideration, recoverability of deferred tax assets and financial close and reporting, there have been no changes in our internal controls over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Remediation Plan for Material Weaknesses in Internal Control over Financial Reporting

Management has been actively engaged in remediation efforts to address the material weaknesses throughout fiscal year 2017 and these efforts will continue into fiscal year 2018. We made enhancements to our control environment by improving guidance, communication of expectations and importance of internal controls. In addition, we made improvements to the level of detail in our risk assessment and clarity of the linkage between risks and internal controls. We will continue to improve upon our risk assessment procedures and the timeliness of those procedures in 2018. We have made progress towards addressing the weaknesses in information and communication beginning the process to better identify, document, and assess systems and information used when performing internal controls and will continue this effort in 2018. We implemented enhanced monitoring procedures to allow for more effective monitoring of compliance with established accounting policies, procedures and controls. We have recently hired both an experienced CFO and an Accounting Director, who have provided us with additional capacity and expertise to enhance our accounting and reporting review procedures. We also made changes to roles and responsibilities to enhance controls and compliance within our accounting team.

We continue to work with the third-party specialists we engaged to review, document, and (as needed) supplement our controls, with the goal of designing and implementing controls that not only better address both the accuracy and precision of management's review, but also enhance our ability to manage our business as it has evolved. While we have made improvements to our control environment, risk assessment procedures, and many of our control activities, management may determine that additional steps may be necessary to remediate the material weaknesses.

While we intend to resolve all of the material control deficiencies discussed above, we cannot provide any assurance that these remediation efforts will be successful, will be completed quickly, or that our internal control over financial reporting will be effective as a result of these efforts by any particular date.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and Board of Directors of Harte Hanks, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Harte Hanks, Inc. and subsidiaries (the "Company") as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weaknesses identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017, of the Company and our report dated March 15, 2018 expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Management identified material weaknesses in the Company's overall control environment due to the aggregate effect of multiple deficiencies in internal controls, which affected each of the five components of internal control as defined by COSO (control environment, risk assessment, control activities, information and communication, and monitoring). These material weaknesses contributed to the material weaknesses management identified over revenue: management did not design and maintain effective controls over the completeness and accuracy of data used to recognize and record revenue and related accounts such as accounts receivable, accrued revenue and deferred revenue; the precision of management's review of controls over revenue; and the identification of relevant systems used to process revenue transactions.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2017, of the Company, and this report does not affect our report on such financial statements.

/s/ DELOITTE & TOUCHE LLP

San Antonio, TX
March 15, 2018

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Section 16(a) Beneficial Ownership Reporting Compliance

The information to appear in our 2018 Proxy Statement under the caption "General Information - Section 16(a) Beneficial Ownership Reporting Compliance" is incorporate herein by reference.

Directors and Executive Officers

The information required by this item regarding our directors and executive officers will be set forth in our 2018 Proxy Statement under the caption “Directors and Executive Officers” which information is incorporated herein by reference.

Code of Ethics and Other Governance Information

The information required by this item regarding the Supplemental Code of Ethics for our Senior Financial Officers (Code of Ethics), audit committee financial experts, audit committee members and procedures for stockholder recommendations of nominees to our Board of Directors will be set forth in our 2018 Proxy Statement under the caption “Corporate Governance” which information is incorporated herein by reference.

Our Code of Ethics may be found on our website at www.hartehanks.com “Corporate Governance” section of the “Investors” tab, and a printed copy of our Code of Ethics will be furnished without charge, upon written request to Harte Hanks, Inc., Attn: Corporate Secretary, 9601 McAllister Freeway, Suite 610, San Antonio, Texas 78216. In accordance with the rules of the NYSE and the SEC, we currently intend to disclose any future amendments to our Code of Ethics, or waivers from our Code of Ethics for our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, by posting such information on our website (www.HarteHanks.com) within the time period required by applicable SEC and NYSE rules.

Management Certifications

In accordance with the Sarbanes-Oxley Act of 2002 and SEC rules thereunder, our CEO and CFO have signed certifications under Sarbanes-Oxley Section 302, which are filed as exhibits to this Form 10-K. In addition, our CEO most recently submitted an annual certification to the NYSE under Section 303A.12(a) of the NYSE listing standards on September 18, 2017.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item regarding the compensation of our “named executive officers” and directors and other required information will be set forth in our 2018 Proxy Statement under the captions “Executive Compensation,” and “Director Compensation,” which information is incorporated herein by reference. In accordance with the rules of the SEC, information to be contained in the 2018 Proxy Statement under the caption “Compensation Committee Report” is not deemed to be “filed” with the SEC or subject to the liabilities of the 1934 Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information at Year-End 2017

The information required by this item regarding securities authorized for issuance under equity compensation plans will be set forth in our 2018 Proxy Statement under the caption “Executive Compensation - Equity Compensation Plan Information at Year-End2015,” which information is incorporated herein by reference.

Beneficial Ownership

The information required by this item regarding security ownership of certain beneficial owners, management and directors will be set forth in our 2018 Proxy Statement under the caption “Security Ownership of Management and Principal Stockholders,” which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Independence of Directors

The information required by this item regarding director independence will be set forth in our 2018 Proxy Statement under the caption "Corporate Governance—Independence of Directors," which information is incorporated herein by reference.

Certain Relationships and Related Transactions

The information required by this item regarding transactions with related persons, including our policies and procedures for the review, approval or ratification of related person transactions that are required to be disclosed under the SEC's rules and regulations, will be set forth in our 2018 Proxy Statement under the caption "Corporate Governance—Certain Relationships and Related Transactions," which information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item regarding the audit committee's pre-approval policies and procedures and the disclosures of fees billed by our principal independent auditor will be set forth in our 2018 Proxy Statement under the caption "Audit Committee and Independent Registered Public Accounting Firm," which information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

15(a)(1) Financial Statements

The financial statements filed as part of this report and referenced in Item 8 are presented in the Consolidated Financial Statements and the notes thereto beginning at page 38 of this Form 10-K (Financial Statements).

15(a)(2) Financial Statement Schedules

All schedules for which provision is made in the applicable rules and regulations of the SEC have been omitted as the schedules are not required under the related instructions, are not applicable, or the information required thereby is set forth in the Consolidated Financial Statements or notes thereto.

15(a)(3) Exhibits

The Exhibit Index following the Notes to Consolidated Financial Statements in this Form 10-K lists the exhibits that are filed or furnished, as applicable, as part of this Form 10-K.

SIGNATURES

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

HARTE HANKS, INC.

By: /s/ Karen A. Puckett
Karen A. Puckett
President and Chief Executive Officer

Date: March 15, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Karen A. Puckett	/s/ Jon C. Biro
Karen A. Puckett Director, President and Chief Executive Officer Date: March 15, 2018	Jon C. Biro Executive Vice President and Chief Financial Officer Date: March 15, 2018
/s/ Carlos M. Alvarado	/s/ Christopher M. Harte
Carlos M. Alvarado Vice President, Finance and Corporate Controller Date: March 15, 2018	Christopher M. Harte, Chairman Date: March 15, 2018
/s/ David L. Copeland	/s/ Scott C. Key
David L. Copeland, Director Date: March 15, 2018	Scott C. Key, Director Date: March 15, 2018
/s/ William F. Farley	/s/ Judy C. Odom
William F. Farley, Director Date: March 15, 2018	Judy C. Odom, Director Date: March 15, 2018
/s/ Melvin L. Keating	/s/ Alfred V. Tobia, Jr.
Melvin L. Keating, Director Date: March 15, 2018	Alfred V. Tobia, Jr., Director Date: March 15, 2018

Harte Hanks, Inc. and Subsidiaries
Index to Consolidated Financial Statements

All schedules for which provision is made in the applicable rules and regulations of the SEC have been omitted as the schedules are not required under the related instructions, are not applicable, or the information required thereby is set forth in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Harte Hanks, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Harte Hanks, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income (loss), changes in equity, and cash flows for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2018 expressed an adverse opinion on the Company's internal control over financial reporting because of material weaknesses.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

San Antonio, Texas
March 15, 2018

We have served as the Company’s auditor since 2016.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Harte Hanks, Inc. and subsidiaries as of December 31, 2015, and the related consolidated statements of comprehensive income (loss), changes in equity, and cash flows for each of the years in the two-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harte Hanks, Inc. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

San Antonio, Texas
March 14, 2016 except for the restatement of discontinued operations in the consolidated balance sheet, statements of comprehensive income (loss), statements of cash flows and Notes A, D, E, H, K, and N, as to which the date is June 16, 2017.

Harte Hanks, Inc. and Subsidiaries Consolidated Balance Sheets

In thousands, except per share and share amounts	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 8,397	$ 46,005
Accounts receivable (less allowance for doubtful accounts of $697 at December 31, 2017 and $1,028 at December 31, 2016)	81,397	88,813
Inventory	587	838
Prepaid expenses	5,039	5,944
Prepaid income tax	3,886	2,895
Other current assets	3,900	4,934
Total current assets	103,206	149,429
Property, plant and equipment		
Buildings and improvements	16,821	18,673
Software	52,967	53,672
Equipment and furniture	84,747	92,367
Software development and equipment installations in progress	4,005	600
Gross property, plant and equipment	158,540	165,312
Less accumulated depreciation and amortization	(136,753)	(141,388)
Net property, plant and equipment	21,787	23,924
Goodwill	—	34,510
Other intangible assets (less accumulated amortization of $2,184 at December 31, 2017 and $1,471 at December 31, 2016)	2,589	3,302
Other assets	3,230	2,272
Total assets	$ 130,812	$ 213,437
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	36,130	45,563
Accrued payroll and related expenses	10,601	9,990
Deferred revenue and customer advances	5,342	6,505
Income taxes payable	—	30,436
Customer postage and program deposits	11,443	7,985
Other current liabilities	3,732	4,188
Total current liabilities	67,248	104,667
Pensions	59,338	60,836
Contingent consideration	33,887	29,725
Deferred tax liability, net	773	11,044
Other long-term liabilities	4,201	4,509
Total liabilities	165,447	210,781
Stockholders' equity		
Common stock, $1 par value, 25,000,000 shares authorized 12,074,661 shares issued at December 31, 2017 and 12,043,673 shares issued at December 31, 2016	12,075	12,044
Additional paid-in capital	457,186	458,638
Retained earnings	794,583	837,316
Less treasury stock, 5,864,641 shares at cost at December 31, 2017 and 5,879,163 shares at cost at December 31, 2016	(1,254,176)	(1,259,164)
Accumulated other comprehensive loss	(44,303)	(46,178)
Total stockholders' equity (deficit)	(34,635)	2,656
Total liabilities and stockholders' equity	$ 130,812	$ 213,437

See Accompanying Notes to Consolidated Financial Statements.

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Harte Hanks, Inc. and Subsidiaries Consolidated Statements of Comprehensive Income (Loss)

	Year Ended December 31,		
In thousands, except per share amounts	**2017**	**2016**	**2015**
Operating revenues	$ 383,906	$ 404,412	$ 444,166
Operating expenses			
Labor	230,280	245,298	233,304
Production and distribution	109,090	117,126	141,920
Advertising, selling, general and administrative	40,384	44,804	44,579
Impairment of goodwill	34,510	38,669	209,938
Depreciation, software and intangible asset amortization	10,507	12,352	12,378
Total operating expenses	424,771	458,249	642,119
Operating income (loss)	(40,865)	(53,837)	(197,953)
Other expenses			
Interest expense, net	4,826	3,454	5,016
Loss on sale	—	—	9,501
Other, net	6,063	11,857	5,956
Total other expenses	10,889	15,311	20,473
Income (loss) from continuing operations before income taxes	(51,754)	(69,148)	(218,426)
Income tax expense (benefit)	(9,894)	20,630	(37,360)
Income (loss) from continuing operations	$ (41,860)	$ (89,778)	$ (181,066)
Income (loss) from discontinued operations, net of income taxes (including loss on disposal of $44,529 at December 31, 2016)	$ —	$ (41,159)	$ 10,138
Net income (loss)	$ (41,860)	$ (130,937)	$ (170,928)
Basic earnings (loss) per common share			
Continuing operations	$ (6.76)	$ (14.60)	$ (29.37)
Discontinued operations	—	(6.69)	1.64
Basic earnings (loss) per common share	(6.76)	$ (21.29)	$ (27.73)
Weighted-average common shares outstanding	6,192	6,149	6,164
Diluted earnings (loss) per common share			
Continuing operations	$ (6.76)	$ (14.60)	$ (29.37)
Discontinued operations	—	(6.69)	1.64
Diluted earnings (loss) per common share	$ (6.76)	$ (21.29)	$ (27.73)
Weighted-average common and common equivalent shares outstanding	6,192	6,149	6,164
Net income (loss)	$ (41,860)	$ (130,937)	$ (170,928)
Declared dividends per share	$ —	$ 0.85	$ 3.40
Other comprehensive income (loss), net of tax			
Adjustment to pension liability	$ 1,559	$ (3,062)	$ 5,645
Foreign currency translation adjustments	316	444	(1,976)
Total other comprehensive income (loss), net of tax	1,875	(2,618)	3,669
Comprehensive income (loss)	$ (39,985)	$ (133,555)	$ (167,259)

See Accompanying Notes to Consolidated Financial Statements.

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Harte Hanks, Inc. and Subsidiaries Consolidated Statements of Cash Flows

	Year Ended December 31,		
In thousands	**2017**	**2016**	**2015**
Cash Flows from Operating Activities			
Net loss	$ (41,860)	$ (130,937)	$ (170,928)
Adjustments to reconcile net loss to net cash provided by operating activities			
(Income) loss from discontinued operations, net of tax	—	41,159	(10,138)
Loss on sale	—	—	9,501
Impairment of goodwill	34,510	38,669	209,938
Depreciation and software amortization	9,791	11,531	11,719
Intangible asset amortization	713	821	659
Stock-based compensation	2,662	2,673	5,442
Net pension cost (payments)	1,100	385	(257)
Interest accretion on contingent consideration	4,162	2,430	2,337
Adjustments to fair value of contingent consideration	—	7,018	—
Amortization of debt issuance costs	—	208	356
Deferred income taxes	(10,959)	26,290	(41,569)
Other, net	(27)	(246)	319
Changes in assets and liabilities, net of acquisitions:			
Decrease (increase) in accounts receivable	7,416	14,945	7,238
Decrease (increase) in inventory	251	125	272
Decrease (increase) in prepaid expenses and other current assets	710	2,723	954
Increase (decrease) in accounts payable	(10,398)	9,126	1,888
Increase (decrease) in other accrued expenses and liabilities	(28,871)	23,045	(10,390)
Net cash provided by (used in) continuing operations	(30,800)	49,965	17,341
Net cash provided by (used in) discontinued operations	—	(35,375)	15,945
Net cash provided by (used in) operating activities	(30,800)	14,590	33,286
Cash Flows from Investing Activities			
Acquisitions, net of cash acquired	—	(3,500)	(29,862)
Dispositions, net of cash transferred	—	—	4,974
Purchases of property, plant and equipment	(5,684)	(6,691)	(7,907)
Proceeds from the sale of property, plant and equipment	18	755	(76)
Net cash used in investing activities within continuing operations	(5,666)	(9,436)	(32,871)
Net cash provided by (used in) investing activities within discontinued operations	—	109,139	(3,269)
Net cash provided by (used in) investing activities	(5,666)	99,703	(36,140)
Cash Flows from Financing Activities			
Borrowings	30,000	276,302	13,000
Repayment of borrowings	(30,211)	(353,614)	(18,375)
Debt financing costs	(635)	(2,484)	—
Issuance of common stock	(111)	(233)	(909)
Payment of capital leases	(501)	(168)	—
Excess tax benefits from stock-based compensation	—	—	14
Purchase of treasury stock	—	—	(4,619)
Issuance of treasury stock	—	186	193
Dividends paid	—	(5,285)	(21,241)
Net cash used in financing activities	(1,458)	(85,296)	(31,937)
Effect of exchange rate changes on cash and cash equivalents	316	444	(1,976)
Net increase (decrease) in cash and cash equivalents	(37,608)	29,441	(36,767)
Cash and cash equivalents at beginning of year	46,005	16,564	53,331
Cash and cash equivalents at end of year	$ 8,397	$ 46,005	$ 16,564

See Accompanying Notes to Consolidated Financial Statements

Harte Hanks, Inc. and Subsidiaries Consolidated Statements of Cash Flows (Continued)

	Year Ended December 31,		
In thousands	**2017**	**2016**	**2015**
Supplemental disclosures			
Cash paid for interest	$ 292	$ 5,672	$ 1,679
Cash paid for income taxes, net of refunds	$ 32,914	$ 2,592	$ 10,069
Non-cash investing and financing activities			
Purchases of property, plant and equipment included in accounts payable	$ 1,434	$ 298	$ 315
New capital lease obligations	$ 57	$ 1,259	$ 177

See Accompanying Notes to Consolidated Financial Statements

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Harte Hanks, Inc. and Subsidiaries Consolidated Statements of Changes in Equity

In thousands, except per share amounts	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income(loss)	Total Stockholders' Equity
Balance at December 31, 2014	$ 11,961	$ 453,885	$ 1,165,707	$ (1,257,648)	$ (47,229)	$ 326,676
Exercise of stock options and release of unvested shares	54	157	—	(1,120)	—	(909)
Net tax effect of stock options exercised and release of unvested shares	—	1,742	—	—	—	1,742
Stock-based compensation	—	5,733	—	—	—	5,733
Dividends paid ($3.40 per share)	—	—	(21,241)	—	—	(21,241)
Treasury stock issued	—	(335)	—	528	—	193
Purchase of treasury stock	—	—	—	(4,619)	—	(4,619)
Net income	—	—	(170,928)	—	—	(170,928)
Other comprehensive loss	—	—	—	—	3,669	3,669
Balance at December 31, 2015	$ 12,015	$ 461,182	$ 973,538	$ (1,262,859)	$ (43,560)	$ 140,316
Exercise of stock options and release of unvested shares	29	(29)	—	(233)	—	(233)
Net tax effect of stock options exercised and release of unvested shares	—	(1,259)	—	—	—	(1,259)
Stock-based compensation	—	2,486	—	—	—	2,486
Dividends paid ($0.85 per share)	—	—	(5,285)	—	—	(5,285)
Treasury stock issued	—	(3,742)	—	3,928	—	186
Net loss	—	—	(130,937)	—	—	(130,937)
Other comprehensive income	—	—	—	—	(2,618)	(2,618)
Balance at December 31, 2016	$ 12,044	$ 458,638	$ 837,316	$ (1,259,164)	$ (46,178)	$ 2,656
Cumulative effect of accounting change	—	1,050	(873)	—	—	177
Exercise of stock options and release of unvested shares	31	(30)	—	(112)	—	(111)
Stock-based compensation	—	2,457	—	—	—	2,457
Treasury stock issued	—	(4,929)	—	5,100	—	171
Net loss	—	—	(41,860)	—	—	(41,860)
Other comprehensive loss	—	—	—	—	1,875	1,875
Balance at December 31, 2017	$ 12,075	$ 457,186	$ 794,583	$ (1,254,176)	$ (44,303)	$ (34,635)

See Accompanying Notes to Consolidated Financial Statements.

Harte Hanks, Inc. and Subsidiaries Notes to Consolidated Financial Statements

Note A — Significant Accounting Policies

The consolidated financial statements and accompanying notes are prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP").

Consolidation

The accompanying consolidated financial statements present the financial position and the results of operations and cash flows of Harte Hanks, Inc., and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

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

Discontinued Operations

As discussed in Note N, *Discontinued Operations*, we sold our Trillium reporting unit as of December 23, 2016. As such, the results of operations, financial position, and cash flows for Trillium are reported separately as discontinued operations for all periods presented in the Consolidated Financial Statements. Results of the remaining Harte Hanks business are reported as continuing operations.

Debt under the 2016 Secured Credit Facility, as defined within Note C, *Long-Term Debt*, was required to be repaid as a result of the Trillium transaction. In accordance with the provisions of ASC 205-20-45-6, *Allocation of Interest to Discontinued Operations*, we have reclassified interest expense for the 2016 Secured Credit Facility to discontinued operations for December 31, 2016 in the Consolidated Financial Statements.

Reverse Stock Split

On January 31, 2018, we executed a 1-for-10 reverse stock split (the "Reverse Stock Split"). Pursuant to the Reverse Stock Split, every 10 pre-split shares were exchanged for one post-split share of the Company's Common Stock. No fractional shares were issued in connection with the Reverse Stock Split. Stockholders who would otherwise have held a fractional share of the Common Stock received a cash payment in lieu thereof. In addition, our authorized Common Stock was reduced from 250 million to 25 million shares. The number of authorized shares of preferred stock remains unchanged at one million shares. See Note P, *Subsequent Events*, for additional information.

The Consolidated Financial Statements and Accompanying Notes to Consolidated Financial Statements give retroactive effect to the Reverse Stock Split for all periods presented, unless otherwise noted. The calculation of basic and diluted earnings (loss) per share have been determined based on a retroactive adjustment of weighted average shares outstanding for all periods presented. The reflect to the reverse stock split on shareholders' equity, an amount equal to the par value of the reduced shares from the common stock par value account was reclassified to additional paid in capital resulting in no net impact to shareholders' equity on the Consolidated Balance Sheets.

Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform to the current year presentation. This includes amounts related to discontinued operations, which have been reclassified for comparative purposes in all periods presented. This also includes the retrospective adoption of ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, resulted in the reclassification of pension expense previously recorded in Labor as of December 31, 2016 to Other, net in the Consolidated Statements of Comprehensive Loss.

Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results and outcomes could differ from those estimates and assumptions. Such estimates include, but are not limited to, estimates related to pension accounting; fair value for purposes of assessing goodwill, long-lived assets, and intangible assets for impairment; income taxes; and contingencies. 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.

Operating Expense Presentation in Consolidated Statements of Comprehensive Income (Loss)

The “Labor” line in the Consolidated Statements of Comprehensive Income (Loss) includes all employee payroll and benefits, including stock-based compensation, along with temporary labor costs. The “Production and distribution” and “Advertising, selling, general and administrative” lines do not include labor, depreciation, or amortization.

Revenue Recognition

We recognize revenue when all of the following criteria are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) the service has been performed or the product has been delivered. In order to recognize revenue, we require either a purchase order, a statement of work signed by the client, a written contract, or some other form of written authorization from the client. Revenue that is not recognized at the time of sale because the foregoing conditions are not met are recognized when those conditions are subsequently met. Revenue is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities. Any payments received in advance of the performance of services or delivery of the product are recorded as deferred revenue until such time as the services are performed or the product is delivered.

Revenue from agency and digital services, direct mail, and contact center is recognized as the work is performed. Fees for these services are determined by the terms set forth in the contact with the client. These are typically set at a fixed price or rate by transaction occurrence, service provided, time spent, or product delivered.

For arrangements requiring design and build of a database, revenue is not recognized until client acceptance occurs. Up-front fees billed during the setup phase for these arrangements are deferred and direct build costs are capitalized. Pricing for these types of arrangements are typically based on a fixed price determined in the contract. Revenue from other database marketing solutions is recognized ratably over the contractual service period. Pricing for these services are typically based on a fixed price per month or per contract.

Cash Equivalents

All highly liquid investments with an original maturity of 90 days or less at the time of purchase are considered to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value.

Allowance for Doubtful Accounts

We maintain our allowance for doubtful accounts adequate to reduce accounts receivable to the amount of cash expected to be collected. The methodology used to determine the minimum allowance is based on our prior collection experience and is generally related to the accounts receivable balance in various aging categories. The balance is also influenced by specific clients’ financial strength and circumstance. Accounts that are determined to be uncollectible are written off in the period in which they are determined to be uncollectible. Periodic changes to the allowance balance are recorded as increases or decreases to bad debt expense, which is included in the “Advertising, selling, general, and administrative” line of our Consolidated Statements of Comprehensive Income (Loss). The changes in the allowance for doubtful accounts consisted of the following:

	Year Ended December 31,		
In thousands	**2017**	**2016**	**2015**
Balance at beginning of year	$ 1,028	$ 974	$ 878
Net charges to expense	192	711	685
Amounts recovered against the allowance	(523)	(657)	(589)
Balance at end of year	$ 697	$ 1,028	$ 974

Inventory

Inventory, consisting primarily of print materials and operating supplies, is stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment

Property, plant and equipment are stated on the basis of cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The general ranges of estimated useful lives are:

Buildings and improvements	3 to 40 years
Software	2 to 10 years
Equipment and furniture	3 to 20 years

Long-lived assets such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset group. We did not record an impairment of long-lived assets in 2017, 2016, or 2015.

Capital lease assets are included in property, plant and equipment. Capital lease assets at December 31, 2017 and 2016 consisted of:

	December 31,	
In thousands	**2017**	**2016**
Equipment and furniture	$ 1,774	$ 2,357
Less accumulated depreciation	(687)	(903)
Net book value	$ 1,087	$ 1,454

Goodwill and Other Intangible Assets

Goodwill is recorded to the extent that the purchase price of an acquisition exceeds the fair value of the identifiable net assets acquired and is tested for impairment on an annual basis. We have established November 30 as the date for our annual test for impairment of goodwill. Interim testing is performed more frequently if events or circumstances indicate that it is “more likely than not” that goodwill might be impaired. Such events could include changes in the business climate in which we operate, attrition of key personnel, the current volatility in the capital markets, the company’s market capitalization compared to our book value, our recent operating performance, and financial projections.

Goodwill is tested for impairment by assessing qualitative factors to determine whether the existence of events or circumstances leads to a determination that is more likely than not that the fair value of the reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, or based on management's judgment, we determine it is more likely than not that the fair value is less than its carrying amount, an impairment test is performed using a one-step approach. The fair value of the reporting unit, using the discounted cash flow method, is compared to its carrying amount. If the carrying amount is greater than the fair value, an impairment loss is recognized in an amount equal to the excess.

Our acquired intangible assets are amortized on a straight-line basis over their estimated useful lives, which generally range from two to 10 years. Our acquired intangible assets do not have indefinite lives. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the intangible asset may not be recoverable. The carrying amount of an intangible asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If it is determined that an impairment loss has occurred, the loss is measured as the amount by which the carrying amount of the intangible asset exceeds its fair value.

Income Taxes

Income tax expense includes U.S. and international income taxes accounted for under the asset and liability method. Certain income and expenses are not reported in tax returns and financial statements in the same year. Such temporary differences are reported as deferred tax. Deferred tax assets are reported net of valuation allowances where we have assessed that it is more likely than not that a tax benefit will not be realized.

Earnings Per Share

Basic earnings per common share are based upon the weighted-average number of common shares outstanding during the period. Diluted earnings per common share are based upon the weighted-average number of common shares and dilutive common stock equivalents outstanding during the period. Dilutive common stock equivalents are calculated based on the assumed exercise of stock options and vesting of unvested shares using the treasury stock method.

Stock-Based Compensation

All share-based awards are recognized as operating expense in the “Labor” line of the Consolidated Statements of Comprehensive Income (Loss). Calculated expense is based on the fair values of the awards on the date of grant and is recognized over the requisite service period or performance period of the awards.

Reserve for Healthcare, Workers’ Compensation, Automobile, and General Liability

We are self-insured for the majority of our healthcare insurance. We pay actual medical claims up to a stop loss limit of $0.3 million. In the fourth quarter of 2016, we moved to a guaranteed cost program for our workers' compensation and automobile programs. Prior to the change, our deductible for workers’ compensation was $0.5 million. Our deductible for general liability is $0.3 million.

The reserve is estimated using current claims activity, historical experience, and claims incurred but not reported. We use loss development factors that consider both industry norms and company specific information. Our liability is recorded at the estimate of the ultimate cost of claims at the balance sheet date. At December 31, 2017 and 2016, our reserve for healthcare, workers’ compensation, net, automobile, and general liability was $3.5 million and $4.6 million, respectively. Periodic changes to the reserve for workers’ compensation, automobile and general liability are recorded as increases or decreases to insurance expense, which is included in the “Advertising, selling, general and administrative” line of our Consolidated Statements of Comprehensive Income (Loss). Periodic changes to the reserve for healthcare are recorded as increases or decreases to employee benefits expense, which is included in the “Labor” line of our Consolidated Statements of Comprehensive Income (Loss).

Foreign Currencies

In most instances the functional currencies of our foreign operations are the local currencies. Assets and liabilities recorded in foreign currencies are translated in U.S. dollars at the exchange rate on the balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during a given month. Adjustments resulting from this translation are charged or credited to other comprehensive loss.

Geographic Concentrations

Depending on the needs of our clients, our services are provided in an integrated approach through 32 facilities worldwide, of which 6 are located outside of the U.S.

Information about the operations in different geographic areas:

	Year Ended December 31,		
In thousands	**2017**	**2016**	**2015**
Revenue (1)			
United States	$ 330,944	$ 324,625	$ 377,717
Other countries	52,962	79,787	66,449
Total revenue	$ 383,906	$ 404,412	$ 444,166

	December 31,	
In thousands	**2017**	**2016**
Property, plant and equipment (2)		
United States	$ 18,789	$ 19,810
Other countries	2,998	4,114
Total property, plant and equipment	$ 21,787	$ 23,924

(1) Geographic revenues are based on the location of the service being performed.
(2) Property, plant and equipment are based on physical location.

Recent Accounting Pronouncements

Recently issued accounting pronouncements not yet adopted

Stock-Based Compensation

In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*, which provides clarified guidance on applying modification accounting to changes in the terms or conditions of a share-base payment award. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. This change is required to be applied prospectively to an award modified on or after the adoption date. We are evaluating the effect that this will have on our consolidated financial statements and related disclosures.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides clarified guidance on the classification of certain cash receipts and payments in the statement of cash flows. This ASU is effective for annual periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. This change is required to be applied using a retrospective transition method to each period presented. We are evaluating the effect that this will have on our consolidated financial statements and related disclosures.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires all operating leases to be recorded on the balance sheet. The lessee will record a liability for its lease obligations (initially measured at the present value of the future lease payments not yet paid over the lease term, and an asset for its right to use the underlying asset equal to the lease liability, adjusted for lease payments made at or before lease commencement). This ASU is effective for interim and annual periods beginning after December 15, 2018. This change is required to be applied using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited. Early adoption is permitted. We are evaluating the effect that this will have on our consolidated financial statements and related disclosures.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, related to revenue recognition. Under the new standard and its related amendments (collectively known as ASC 606), an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of the new standard, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The new standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard also includes criteria for the capitalization and amortization of certain contract acquisition and fulfillment costs.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The new standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted, but not before the original effective date of annual reporting periods beginning after December 15, 2016.

We will adopt the new standard on January 1, 2018 utilizing the modified retrospective method. As permitted under the transition guidance, we will apply the new standard only to contracts not completed as of January 1, 2018, which represent contracts for which substantially all of the revenues have not been recognized under existing guidance.

We have established an implementation team to assist with the assessment of the impact that the new standard will have on our operations, consolidated financial statements and related disclosures. We have identified our major revenue streams and are in the process of finalizing our assessment and accounting policies, including the quantification of the expected effect. The adoption of ASC 606 may have a material effect on our consolidated financial statements. Based on analysis to date, we have identified the following potential impacts:

- Under existing guidance, revenue is recognized upon completion of a specified deliverable or the service. However, the new standard introduced an additional criteria which requires certain performance obligations to be recognized over time if the performance obligation does not create an asset with an alternative use and we have an enforceable right to payment for performance completed to date. We are currently evaluating the impact of these changes under the new standard.

- We enter into contracts which allow the customer or either party the ability to terminate the contract for convenience without incurring a substantial termination penalty. Under existing guidance, we consider the stated term as the contract term and account for terminations when they occur. Under the new standard, the contract term is specified as the contractual period in which the parties to the contract have enforceable rights and obligations. We are currently evaluating the impact these provisions may have on the measurement and allocation of the transaction price as well as any revenue recognition timing differences as compared to current guidance.
- We perform certain services at the onset of a contract and we may receive a nonrefundable up-front fee from the customer for these services. Currently, we recognize these upfront fees when these services are completed. However, under the new standard, if these services do not represent a promise to transfer a good or service they may not be deemed a separate performance obligation, which would require revenue recognition over the term of the contract including any renewal options. We are currently evaluating the impact of these changes under the new standard.

In addition, we have determined the adoption of this standard will result in several additional disclosures, including but not limited to additional information around our performance obligations, the timing of revenue recognition, remaining performance obligations at period end, contract assets and liabilities and significant judgments made that impact the amount and timing of revenue from our contracts with customers. These additional disclosures will be included in the Company's first quarter report on Form 10-Q. In addition, under the modified retrospective method of adoption, we will be required to disclose, for the first year subsequent to adoption, any significant revenue recognition differences under the new standard from what would have been recorded by us had historical revenue recognition guidance continued to be in effect for 2018. We will also be required to disclose the amount of each account impacted as a result of the adoption of the new standard and what that amount would have been under historical revenue recognition guidance during 2018.

This discussion of the expected effects of our adoption of ASC 606 represents management's best estimates of the effects of adopting ASC 606 at the time of the preparation of this Annual Report on Form 10-K. In order to complete this assessment, we are continuing to update and enhance our internal accounting systems and internal controls over financial reporting, which will include new controls around contract inception and contract modifications, as well as periodic reviews of material contracts. In addition, we are continuing to evaluate the impacts of the new guidance, including:

- Our determination as to whether contract options represent material rights
- Our estimation policies for variable consideration, including usage based fees and fees based on hours incurred.
- Our policies to allocate the transaction price to the performance obligations in our contracts, specifically, the determination of standalone selling prices used in the allocation.
- The determination of the amounts and amortization periods for costs to obtain a contract that are expected to be recognized as assets. In cases where the period under which such capitalized costs would be amortized is less than 12 months, we have elected to utilize the practical expedient method available under the new standard, and expense these contract costs as incurred.
- Quantification of impacts from adopting the new standard, including income tax impacts.

Recently adopted accounting pronouncements

Employee Benefit Plans

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires entities to present the service cost component of net benefit cost with the other current compensation costs. All other components of net benefit cost are to be reported outside of operating income. This ASU is effective for annual periods beginning after December 15, 2017, with early adoption permitted. This change is required to be applied using a retrospective transition method for each period presented. We adopted the update as of the first quarter of 2017. As a result of the adoption of this ASU, we reclassified $1.9 million and $5.3 million of pension expense recorded in Labor for the years ended December 31, 2016 and 2015, respectively to Other, net in the Consolidated Statements of Comprehensive Loss.

Goodwill and Other Intangible Assets

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates step two from the goodwill impairment test. Under the amendments in ASU 2017-04, an entity should recognize an impairment charge in the amount that the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. We adopted this standard in January 2017, and have applied it as necessary in our consolidated financial statements.

Stock-Based Compensation

In March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-based Payment Accounting*, which requires entities with share-based payment awards to recognize all related excess tax benefits and tax deficiencies as income tax expenses or benefit in the income statement. This ASU is effective for interim and annual periods beginning after December 15, 2016. We have adopted the update as of the first quarter of 2017. As a result of the adoption of this ASU, excess tax benefits or deficiencies are now reflected in the Consolidated Statements of Comprehensive Loss as a component of income taxes, whereas they previously were recognized in equity. Excess tax benefits are recognized in the Consolidated Statement of Cash Flow as an operating activity, with the prior periods adjusted accordingly. We have elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The ASU was adopted on a modified retrospective basis and no prior periods were restated as a result of this change in accounting policy.

Note B — Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures*, ("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:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Because of their maturities and/or variable interest rates, certain financial instruments have fair values approximating their carrying values. These instruments include cash and cash equivalents, accounts receivable, and trade payables. The fair value of the assets in our funded pension plan is disclosed in Note F, *Employee Benefit Plans.* The assumptions used to determine the fair value of our reporting units in Step One and Step Two of our goodwill impairment tests and the discounted cash flow model used to calculate the fair value of our 3Q Digital customer relationship, trade name and non-compete agreement intangible assets are disclosed in Note E, *Goodwill and Other Intangible Assets.* The summary of our acquisition related contingent consideration accounted for at fair value on a recurring basis is disclosed in Note M, *Acquisition and Disposition.*

Note C — Long-Term Debt

As of December 31, 2017 the Texas Capital Facility was outstanding, but at each of of years ended December 31, 2017 and 2016, we had no debt outstanding.

Credit Facilities

On March 10, 2016, we entered into a secured credit facility with Wells Fargo Bank, N.A. as Administrative Agent, consisting of a maximum $65.0 million revolving credit facility (the "2016 Revolving Credit Facility"), and a $45.0 million term loan facility (the "2016 Term Loan", and together with the 2016 Revolving Credit Facility, the "2016 Secured Credit Facility"). The 2016 Secured Credit Facility was secured by substantially all of our assets and material domestic subsidiaries. The 2016 Secured Credit Facility was used for general corporate purposes, and to replace, and repay remaining outstanding balances on our prior debt.

Prepayment of the 2016 Secured Credit Facility was required upon the completion of the sale of Trillium in accordance with its amended terms. The proceeds of the Trillium sale were used to repay in full all outstanding loans, together with interest, and all other amounts due in connection with repayment (including prepayment penalties of approximately $1.3 million). The credit and guarantee agreements related to the 2016 Secured Credit Facility were likewise terminated.

On April 17, 2017, we entered into a secured credit facility with Texas Capital Bank, N.A., that provides a $20 million revolving credit facility (the "Texas Capital Credit Facility"). The Texas Capital Credit Facility is being used for general corporate purposes and to provide collateral for up to $5.0 million of letters of credit issued by Texas Capital Bank. The Texas Capital Credit Facility is secured by substantially all of the company's assets and is guaranteed by HHS Guaranty, LLC, an entity formed to provide credit support for Harte Hanks by certain members of the Shelton family (descendants of one of our founders).

On January 9, 2018, we entered into an amendment (the "First Amendment") to the Texas Capital Credit Facility. The First Amendment (i) increases the availability under the revolving credit facility from $20 million to $22 million and (ii) extends the Texas Capital Credit Facility one year to April 17, 2020. The Credit Facility remains secured by substantially all of our assets. Our fee for the collateral balance provided by HHS Guaranty, LLC also changed from an annual fee of $0.5 million to 0.5% of collateral actually pledged; we expect that the fees payable to HHS Guaranty will be substantially similar in amount under the new terms.

Pursuant to the First Amendment, the Texas Capital Credit Facility expires on April 17, 2020 at which point all outstanding principal amounts will be due. Harte Hanks can elect to accrue interest on outstanding principal balances at either LIBOR plus 1.95% or prime plus 0.75%. Unused credit balances will accrue interest at 0.50%.

The Texas Capital Credit Facility is subject to customary covenants requiring insurance, legal compliance, payment of taxes, prohibition of second liens, and secondary indebtedness, as well as the filing of quarterly and annual financial statements. We were in compliance with all of the covenants of our credit facility at December 31, 2017.

Cash payments for interest were $0.3 million, $5.7 million, and $1.7 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Note D — Income Taxes

The components of income tax expense (benefit) are as follows:

	Year Ended December 31,		
In thousands	**2017**	**2016**	**2015**
Current			
Federal	$ 348	$ (6,360)	$ 2,920
State and local	245	(107)	744
Foreign	472	807	545
Total current	$ 1,065	$ (5,660)	$ 4,209
Deferred			
Federal	$ (9,886)	$ 18,619	$ (38,048)
State and local	(747)	7,655	(3,523)
Foreign	(326)	16	2
Total deferred	$ (10,959)	$ 26,290	$ (41,569)
Total income tax expense (benefit)	$ (9,894)	$ 20,630	$ (37,360)

The U.S. and foreign components of income (loss) from continuing operations before income taxes were as follows:

	Year Ended December 31,		
In thousands	**2017**	**2016**	**2015**
United States	$ (49,731)	$ (66,828)	$ (217,920)
Foreign	(2,023)	(2,320)	(506)
Total income (loss) from continuing operations before income taxes	$ (51,754)	$ (69,148)	$ (218,426)

The differences between total income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate to income (loss) before income taxes were as follows:

	Year Ended December 31,					
In thousands	**2017**	**Rate**	**2016**	**Rate**	**2015**	**Rate**
Computed expected income tax expense (benefit)	$ (18,114)	35.0 %	$ (24,202)	35.0 %	$ (76,449)	35.0 %
Goodwill impairment basis difference	6,000	-11.6 %	6,275	-9.1 %	36,664	-16.8 %
Sold operations basis difference	—	— %	—	— %	686	-0.3 %
Net effect of state income taxes	(559)	1.1 %	(954)	1.4 %	178	-0.1 %
Foreign subsidiary dividend inclusions	440	-0.8 %	843	-1.2 %	557	-0.3 %
Foreign tax rate differential	187	-0.4 %	722	-1.0 %	291	-0.1 %
Change in valuation allowance	2,265	-4.4 %	34,478	-49.9 %	(153)	0.1 %
Non-deductible interest	1,280	-2.5 %	3,219	-4.7 %	715	-0.3 %
Stock-based compensation shortfalls	1,373	-2.7 %	—	— %	—	— %
Change in valuation allowance due to tax reform	(13,821)	26.7 %	—	— %	—	— %
Change in U.S. tax rate due to tax reform	10,391	-20.1 %	—	— %	—	— %
Other, net	664	-1.2 %	249	-0.4 %	151	-0.1 %
Income tax expense (benefit) for the period	$ (9,894)	19.1 %	$ 20,630	-29.9 %	$ (37,360)	17.1 %

Total income tax expense (benefit) was allocated as follows:

	Year Ended December 31,		
In thousands	**2017**	**2016**	**2015**
Continuing operations	$ (9,894)	$ 20,630	$ (37,360)
Discontinued operations	—	8,994	5,446
Loss on sale of discontinued operations	—	(4,600)	—
Stockholders' equity	755	(782)	2,021
Total	$ (9,139)	$ 24,242	$ (29,893)

The U.S. Tax Cuts and Jobs Act (the "Tax Reform Act") was enacted on December 22, 2017. The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a one-time repatriation tax on deemed repatriated earnings of foreign subsidiaries (the "transition tax"). The Tax Reform Act permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The main impact of the Tax Reform Act on our 2017 financial statement is the re-measurement of deferred tax balances to the new corporate tax rate, in which we recorded a deferred tax benefit of $3.4 million.

Due to the complexities involved in accounting for the recently enacted Tax Reform Act, the U.S. Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") 118 requires that the company include in its financial statements the reasonable estimate of the impact of the Tax Reform Act on earnings to the extent such reasonable estimate has been determined. Accordingly, our U.S. provision for income tax for 2017 is based on the reasonable estimate guidance provided by SAB 118.

Additionally, we have made a provisional estimate for the transition tax. Due to net deficits in our total accumulated post-1986 foreign earnings and profits that were previously deferred from U.S. income tax, we believe that the company will not be subject to the transition tax, and therefore we have not recorded an income tax effect for the transition tax in the current period. We will update this estimate, if necessary, as the accounting for this is complete.

Effective in 2018, the Tax Reform Act also includes a provision to tax global intangible low-taxed income ("GILTI") of foreign subsidiaries and a base erosion anti-abuse tax ("BEAT") measure that taxes certain payments between a U.S. corporation and its foreign subsidiaries. We do not expect that the company will be subject to these taxes and therefore we have not included any tax impacts of GILTI and BEAT in our 2017 financial statements.

We do not have all of the necessary information available to determine a reasonable estimate of the tax liability, if any, under the Tax Reform Act for our remaining outside basis difference in our foreign subsidiaries or to evaluate how the Tax Reform Act will affect our existing accounting position to indefinitely reinvest unremitted foreign earnings. We will continue to apply our existing accounting for this matter under ASC 740, Income Taxes, based on the tax law in effect prior to the enactment of the Tax Reform Act.

We re-measured the applicable deferred tax assets and liabilities based on the rates at which they are expected to reverse. However, we are still analyzing certain aspects of the Tax Reform Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

We will continue to assess the impact from the Tax Reform Act throughout the one-year measurement period as provided by SAB 118 and will record adjustments, if necessary, in 2018.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

	Year Ended December 31,	
In thousands	**2017**	**2016**
Deferred tax assets		
Deferred compensation and retirement plan	$ 15,017	$ 24,715
Accrued expenses not deductible until paid	1,619	3,508
Employee stock-based compensation	1,757	3,321
Accrued payroll not deductible until paid	1,111	1,400
Accounts receivable, net	179	406
Goodwill	700	—
Other, net	290	393
Foreign net operating loss carryforwards	2,887	2,271
State net operating loss carryforwards	3,978	3,349
Foreign tax credit carryforwards	3,653	785
Total gross deferred tax assets	31,191	40,148
Less valuation allowances	(28,350)	(40,148)
Net deferred tax assets	$ 2,841	$ —
Deferred tax liabilities		
Property, plant and equipment	$ (1,941)	$ (3,060)
Goodwill and other intangibles	(701)	(6,800)
Other, net	(972)	(1,184)
Total gross deferred tax liabilities	(3,614)	(11,044)
Net deferred tax liabilities	$ (773)	$ (11,044)

A reconciliation of the beginning and ending balance of deferred tax valuation allowance is as follows:

In thousands	
Balance at December 31, 2015	$ 9,958
Additions:	
Charged to cost and expenses	37,798
Deductions	(7,608)
Balance at December 31, 2016	$ 40,148
Additions:	
Charged to cost and expenses	4,111
Deductions	(15,909)
Balance at December 31, 2017	$ 28,350

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowance for deferred tax assets was $28.4 million and $40.1 million at December 31, 2017 and 2016, respectively. We recorded a $13.8 million deferred income tax benefit related to implementation of the applicable provisions of the Tax Reform Act. The amount of the deferred tax asset considered realizable could be adjusted if estimates of future taxable income during the carryforward period are increased, or if objective negative evidence in the form of cumulative losses is no longer present, and additional weight may be given to subjective evidence such as changes in our growth projections.

We or one of our subsidiaries file income tax returns in the U.S. federal, U.S. state, and foreign jurisdictions. For U.S. federal, U.S. state, and foreign returns, we are no longer subject to tax examinations for years prior to 2013.

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

In thousands		
Balance at December 31, 2014	$	—
Additions for prior year tax positions		761
Balance at December 31, 2015	$	761
Additions for prior year tax positions		206
Balance at December 31, 2016	$	967
Settlements		(761)
Balance at December 31, 2017	$	206

Included in the balance as of December 31, 2017 are $0.2 million of unrecognized tax benefits that, if recognized, would impact our effective tax rate. Any adjustments to this liability as a result of the finalization of audits or potential settlements would not be material.

We have elected to classify any interest and penalties related to income taxes within income tax expense in our Consolidated Statements of Comprehensive Income (Loss). We did not recognize any tax benefits for the reduction of accrued interest and penalties associated with the reduction of the liability for unrecognized tax benefits during the years ended December 31, 2017 and 2016. We did not have any interest and penalties accrued at December 31, 2017 or 2016.

As of December 31, 2017, we had net operating loss carryforwards that are available to reduce future taxable income and that will begin to expire in 2030.

Note E — Goodwill and Other Intangible Assets

As discussed in Note A, *Significant Accounting Policies*, goodwill is not amortized, but is tested for impairment on an annual basis or when circumstances exist that indicate goodwill may be impaired. Prior to the transaction resulting in the sale of Trillium, the company's goodwill was allocated between two reporting units; Customer Interaction and Trillium. As of December 31, 2016 we had one reporting unit.

During our annual impairment test in 2017, we performed a Step One analysis using a business enterprise value approach to determine the fair value of the business. The fair value of the reporting unit was estimated for the purpose of deriving an excess or deficit between the fair value and the carrying amount of the business enterprise. The fair value calculated using the discounted cash flow method was a component of the analysis. Estimated future cash flows were discounted at a rate of 14.0%. The results of the Step One analysis, in accordance with ASU 2017-04, indicated that the carrying value exceeded the fair value and the full carrying value of goodwill should be written-off, resulting in an impairment charge of $34.5 million. Our fair value estimates relied on management assumptions including market rates, revenue growth rates, operating margins, and discount rates.

In conjunction with the sale of Trillium on December 23, 2016, the allocated fair value of goodwill of $149.3 million was written-off. This write-off is reflected in the Income (loss) from discontinued operations, net of income taxes line of the Consolidated Statements of Comprehensive Income (Loss) in the Consolidated Financial Statements.

During our annual impairment test in 2016, we performed a Step One analysis. During the first step we used the income-based approach, in which estimated future cash flows were discounted at a rate of 11.5%. The results were combined with results of the market-based approach to determine fair value of the business. The results indicated that the fair value of the reporting unit was less than its carrying amount and a Step Two analysis was warranted.

Under Step Two, the fair value of the reporting unit was estimated for the purpose of deriving an estimate of the implied fair value of goodwill. The fair value of tangible assets along with the estimated fair value of intangible assets including non-compete agreements, trade names, and customer relationships, were taken into consideration for the analysis. Additional assumptions used in measuring the fair value of the assets and liabilities included customer attrition rates, discount rates, and royalty rates used in valuing the intangible assets, and the consideration of the market environment in valuing tangible assets. The resulting implied fair value of the goodwill was then compared to the recorded goodwill to determine the amount of impairment. The results of Step Two indicated that a goodwill write down of $38.7 million was necessary.

During 2015, as a result of a sustained decline in our market capitalization below our book value of equity and recent operating performance, the company determined that a triggering event had occurred. Using the income-based approach and the market-based approach, the fair value of the reporting unit was estimated to be below the carrying value and therefore indicated impairment. The second step of the test indicated that goodwill was impaired by $209.9 million. The impairment charge resulted in a corresponding $36.8 million tax benefit resulting in a net income impact of $173.1 million. Our fair value estimates relied on management assumptions including discount rate, revenue growth rates, operating margins, attrition rates, and royalty rates.

Our accumulated goodwill impairment was $283.1 million, $248.6 million, and $209.9 million for the years ended December 31, 2017, 2016, and 2015, respectively.

We recorded $3.5 million in goodwill in 2016 in connection with the acquisition of the business of Aleutian Consulting, Inc. on March 4, 2016. The residual purchase price methodology used in the calculation relied on management's assumptions, which are considered Level 3 inputs, as they are unobservable. This goodwill will be tax deductible.

On April 14, 2015, we sold our B2B research businesses, Aberdeen Group and Harte Hanks Market Intelligence (the "B2B research business”). As a result, the $11.1 million allocated fair value within the net book value of Customer Interaction goodwill was written off. In addition, $2.3 million of intangible assets with indefinite useful lives related to the Aberdeen Group trade name was written off. These amounts are reflected in the Loss on sale in the Other expenses section of the Consolidated Statements of Comprehensive Income (Loss).

On March 16, 2015, we acquired 3Q Digital. We performed a valuation to estimate of the total purchase consideration and values for the tangible and identifiable intangible assets. As a result, we recorded $41.8 million in goodwill and $4.8 million of identified intangible assets with definite lives for client relationships and non-compete agreements. For further discussion on transactions discussed above, see Note M, *Acquisition and Disposition.*

The changes in the carrying amount of goodwill are as follows:

In thousands		
Balance at December 31, 2015	$	69,699
Purchase consideration		3,480
Impairment		(38,669)
Balance at December 31, 2016	$	34,510
Impairment		(34,510)
Balance at December 31, 2017	$	—

Other intangibles with definite useful lives relate to contact databases, client relationships, and non-compete agreements. They are amortized on a straight-line basis over their respective estimated useful lives, typically a period of 2 to 10 years, and reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The changes in the carrying amount of other intangibles with definite lives are as follows:

In thousands		
Balance at December 31, 2015	$	4,123
Amortization		(821)
Balance at December 31, 2016	$	3,302
Amortization		(713)
Balance at December 31, 2017	$	2,589

Amortization expense related to other intangibles with definite useful lives was $0.7 million, $0.8 million, and 0.7 million for the years ended December 31, 2017, 2016, and 2015, respectively. Expected amortization expense for the next five years is as follows:

In thousands		
2018	$	624
2019		613
2020		613
2021		613
2022		126
Thereafter		—
Total		2,589

Note F — Employee Benefit Plans

Prior to January 1, 1999, we provided a defined benefit pension plan in which most of our employees were eligible to participate (the "Qualified Pension Plan"). In conjunction with significant enhancements to our 401(k) plan, we elected to freeze benefits under the Qualified Pension Plan as of December 31, 1998.

In 1994, we adopted a non-qualified, unfunded, supplemental pension plan (the "Restoration Pension Plan") covering certain employees, which provides for incremental pension payments so that total pension payments equal those amounts that would have been payable from the principal pension plan were it not for limitations imposed by income tax regulation. The benefits under the Restoration Pension Plan were intended to provide benefits equivalent to our Qualified Pension Plan as if such plan had not been frozen. We elected to freeze benefits under the Restoration Pension Plan as of April 1, 2014.

The overfunded or underfunded status of our defined benefit post-retirement plans is recorded as an asset or liability on our balance sheet. The funded status is measured as the difference between the fair value of plan assets and the projected benefit obligation. Periodic changes in the funded status are recognized through other comprehensive income. We currently measure the funded status of our defined benefit plans as of December 31, the date of our year-end consolidated balance sheets.

The status of the defined benefit pension plans at year-end was as follows:

	Year Ended December 31,	
In thousands	2017	2016
Change in benefit obligation		
Benefit obligation at beginning of year	$ 179,247	$ 178,715
Interest cost	7,347	7,802
Actuarial (gain) loss	10,121	2,127
Benefits paid	(9,679)	(9,397)
Benefit obligation at end of year	$ 187,036	$ 179,247
Change in plan assets		
Fair value of plan assets at beginning of year	116,725	121,682
Actual return on plan assets	17,292	2,883
Contributions	1,675	1,557
Benefits paid	(9,679)	(9,397)
Fair value of plan assets at end of year	$ 126,013	$ 116,725
Funded status at end of year	$ (61,023)	$ (62,522)

The following amounts have been recognized in the Consolidated Balance Sheets at December 31:

In thousands	2017	2016
Other current liabilities	$ 1,685	$ 1,686
Pensions	59,338	60,836
Total	$ 61,023	$ 62,522

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The following amounts have been recognized in accumulated other comprehensive loss, net of tax, at December 31:

In thousands	2017	2016
Net loss	$ 45,418	$ 46,977

We are not required to make and do not intend to make any contributions to our Qualified Pension Plan in 2018. Based on current estimates we will not be required to make any contributions to our Qualified Pension Plan until 2019.

We are not required to make and do not intend to make any contributions to our Restoration Pension Plan in 2018 other than to the extent needed to cover benefit payments. We expect benefit payments under this supplemental pension plan to total approximately $1.7 million in 2018.

The following information is presented for pension plans with an accumulated benefit obligation in excess of plan assets:

In thousands	2017	2016
Projected benefit obligation	$ 187,036	$ 179,247
Accumulated benefit obligation	$ 187,036	$ 179,247
Fair value of plan assets	$ 126,013	$ 116,725

The Restoration Pension Plan had an accumulated benefit obligation of $27.6 million and $26.6 million at December 31, 2017 and 2016, respectively.

The following table presents the components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss) for both plans:

	Year Ended December 31,		
In thousands	2017	2016	2015
Net Periodic Benefit Cost (Pre-Tax)			
Interest cost	7,347	7,802	7,724
Expected return on plan assets	(7,328)	(8,245)	(8,637)
Recognized actuarial loss	2,754	2,386	6,228
Net periodic benefit cost	$ 2,773	$ 1,943	$ 5,315
Amounts Recognized in Other Comprehensive Income (Loss) (Pre-Tax)			
Net (gain) loss	$ (2,597)	$ 5,103	$ (9,408)
Net (benefit) cost recognized in net periodic benefit cost and other comprehensive (income) loss	$ 176	$ 7,046	$ (4,093)

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2018 is $2.7 million. The period over which the net loss from the Qualified Pension Plan is amortized into net periodic benefit cost was changed in 2016 from the average future service of active participants (approximately 9 years) to the average future lifetime of all participants (approximately 23 years). This change reflects that the Qualified Pension Plan is frozen and that almost all of the plan's participants are not active employees.

The weighted-average assumptions used for measurement of the defined pension plans were as follows:

	Year Ended December 31,		
	2017	2016	2015
Weighted-average assumptions used to determine net periodic benefit cost			
Discount rate	4.21%	4.49%	4.13%
Expected return on plan assets	6.50%	7.00%	7.00%

	December 31,	
	2017	2016
Weighted-average assumptions used to determine benefit obligations		
Discount rate	3.67%	4.21%

The discount rate assumptions are based on current yields of investment-grade corporate long-term bonds. The expected long-term return on plan assets is based on the expected future average annual return for each major asset class within the plan's portfolio (which is principally comprised of equity investments) over a long-term horizon. In determining the expected long-term rate of return on plan assets, we evaluated input from our investment consultants, actuaries, and investment management firms, including their review of asset class return expectations, as well as long-term historical asset class returns. Projected returns by such consultants and economists are based on broad equity and bond indices. Additionally, we considered our historical 15-year compounded returns, which have been in excess of the forward-looking return expectations.

The funded pension plan assets as of December 31, 2017 and 2016, by asset category, are as follows:

In thousands	2017	%	2016	%
Equity securities	$ 80,191	64%	$ 61,254	52%
Debt securities	20,481	16%	21,940	19%
Other	25,341	20%	33,531	29%
Total plan assets	$ 126,013	100%	$ 116,725	100%

The fair values presented have been prepared using values and information available as of December 31, 2017 and 2016.

The following tables present the fair value measurements of the assets in our funded pension plan:

In thousands	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 80,191	$ 80,191	$ —	$ —
Debt securities	20,481	20,481	—	—
Total investments, excluding investments valued at NAV	100,672	100,672	—	—
Investments valued at NAV (1)	25,341	—		—
Total plan assets	$ 126,013	$ 100,672	$ —	$ —

In thousands	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 61,254	$ 61,254	$ —	$ —
Debt securities	21,940	21,940	—	—
Total investments, excluding investments valued at NAV	83,194	83,194	—	—
Investments valued at NAV (1)	33,531	—	—	—
Total plan assets	$ 116,725	$ 83,194	$ —	$ —

(1) Investment valued at NAV are comprised of cash, cash equivalents, and short-term investments used to provide liquidity for the payment of benefits and other purposes. The commingled funds are valued at NAV based on the market value of the underlying investments, which are primarily government issued securities.

The investment policy for the Qualified Pension Plan focuses on the preservation and enhancement of the corpus of the plan's assets through prudent asset allocation, quarterly monitoring and evaluation of investment results, and periodic meetings with investment managers.

The investment policy's goals and objectives are to meet or exceed the representative indices over a full market cycle (3-5 years). The policy establishes the following investment mix, which is intended to subject the principal to an acceptable level of volatility while still meeting the desired return objectives:

	Target	Acceptable Range		Benchmark Index
Domestic Equities	50.0%	35%	- 75%	S&P 500
Large Cap Growth	22.5%	15%	- 30%	Russell 1000 Growth
Large Cap Value	22.5%	15%	- 30%	Russell 1000 Value
Mid Cap Value	5.0%	5%	- 15%	Russell Mid Cap Value
Mid Cap Growth	0.0%	0%	- 10%	Russell Mid Cap Growth
Domestic Fixed Income	35.0%	15%	- 50%	LB Aggregate
International Equities	15.0%	10%	- 25%	MSC1 EAFE

The funded pension plan provides for investment in various investment types. Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with investments, it is reasonably possible that changes in the value of investments will occur in the near term and may impact the funded status of the plan. To address the issue of risk, the investment policy places high priority on the preservation of the value of capital (in real terms) over a market cycle. Investments are made in companies with a minimum five-year operating history and sufficient trading volume to facilitate, under most market conditions, prompt sale without severe market effect. Investments are diversified across numerous market sectors and individual companies. Reasonable concentration in any one issue, issuer, industry, or geographic area is allowed if the potential reward is worth the risk.

Investment managers are evaluated by the performance of the representative indices over a full market cycle for each class of assets. The Pension Plan Committee reviews, on a quarterly basis, the investment portfolio of each manager, which includes rates of return, performance comparisons with the most appropriate indices, and comparisons of each manager's performance with a universe of other portfolio managers that employ the same investment style.

The expected future benefit payments for both pension plans over the next ten years as of December 31, 2017 are as follows:

In thousands		
2018	$	9,922
2019		9,977
2020		10,221
2021		10,476
2022		10,855
2023-2027		57,001
Total	$	108,452

We also sponsor a 401(k)-retirement plan in which we matched a portion of employees' voluntary before-tax contributions. Under this plan, both employee and matching contributions vest immediately. Total 401(k) expense for these matching payments recognized was $3.0 million for each of the years ending December 31, 2017, 2016, and 2015

Note G — Stockholders' Equity

Dividends

We paid a dividend of $0.85 per share in the first quarter of 2016 and did not pay any dividends in 2017

Share Repurchase

Under the stock repurchase program publicly announced in August of 2014, our Board provided authorization to spend up to $20.0 million to repurchase shares of our outstanding common stock. During 2017, no shares of our common stock were purchased. We had $11.4 million remaining under the current authorization as of December 31, 2017. From 1997 through December 2017, we have paid more than $1.2 billion to repurchase 6.8 million shares under this program and previously announced programs.

Awardees of stock-based compensation may elect to have shares of common stock withheld from vested awards to meet tax obligations. These shares are returned to our treasury stock at the time of vesting. During 2017, we received 9,310 shares of our common stock, with an estimated market value of $0.1 million, from such arrangements.

Series A Convertible Preferred Stock

Harte Hanks is authorized to issue one million shares of preferred stock with a par value of $1.00. Each share of our Series A Convertible Preferred Stock (the "Series A Preferred Stock") is convertible at any time at the option of the holder into the number of shares of common stock at the initial conversion price. Dividends on the Series A Preferred Stock are accrued at a rate of 5.0% per year or the rate that cash dividends were paid in respect to shares of common stock if such rate is greater than 5.0%. Holders of Series A Preferred Stock do not have voting rights, subject to certain exceptions.

On January 23, 2018, we issued 9,926 shares of our Series A Preferred Stock to Wipro, LLC for gross proceeds of $9.9 million. Shares are convertible into 16.0% of our outstanding common stock on a pre-closing basis, priced at $9.91 per share of common stock. For so long as Wipro owns at least a majority of the preferred shares originally purchased, or is the beneficial owner of at least 5% of the company's common stock, Wipro has the right to appoint one individual as a non-voting observer to the Board and under certain circumstances Wipro may appoint a board member to the board of directors.

Note H — Stock-Based Compensation

Compensation expense for stock-based awards is based on the fair values of the awards on the date of grant and is recognized on a straight-line basis over the vesting period of the entire award in the “Labor” line of the Consolidated Statements of Comprehensive Income (Loss). For the years ended December 31, 2017, 2016, and 2015, we recorded total stock-based compensation expense from continuing operations of $2.7 million, $2.7 million, and $5.4 million, respectively.

We granted equity awards to our Chief Financial Officer in 2017, Chief Operations Officer in 2016, and our Chief Executive Officer and Chief Marketing Officer in 2015 as a material inducement for acceptance of such positions. These option, restricted stock, and performance unit awards were not submitted for stockholder approval, and were separately listed with the NYSE.

In May 2013, our stockholders approved the 2013 Omnibus Incentive Plan ("2013 Plan"), pursuant to which we may issue up to 500,000 shares of stock-based awards to directors, employees, and consultants, as adjusted for the reverse stock split. The 2013 Plan replaced the stockholder-approved 2005 Omnibus Incentive Plan ("2005 Plan"), pursuant to which we issued equity securities to directors, officers, and key employees. No additional stock-based awards will be granted under the 2005 Plan, but awards previously granted under the 2005 Plan will remain outstanding in accordance with their respective terms. As of December 31, 2017, there were 0.1 million shares available for grant under the 2013 Plan.

Stock Options

Options granted under the 2013 Plan or as inducement awards have an exercise price equal to the market value of the common stock on the grant date. These options become exercisable in 25% increments on the first four anniversaries of their date of grant, and expire on the tenth anniversary of their date of grant. Options to purchase 0.1 million shares granted as inducement awards were outstanding at December 31, 2017, with exercise prices ranging from $10.00 to $42.60 per share.

Following the third quarter 2015 resignation of our former CEO, vesting was accelerated on his unvested stock options (pursuant to the terms of his employment agreement and inducement award), for which we recognized $0.5 million of accelerated expense in July 2015. These options were not exercised and subsequently expired.

Options under the 2005 Plan were granted at exercise prices equal to the market value of the common stock on the grant date. All such awards have met their respective vesting dates. Options to purchase 0.1 million shares were outstanding under the 2005 Plan as of December 31, 2017, with exercise prices ranging from $60.40 to $159.00 per share.

Options issued through March 2015 vest in full (to the extent not previously vested) upon a change in control, as defined in the applicable equity plan. Options granted to officers after April 2015 vest in full upon a change in control if such options are not assumed or replaced by a publicly-traded successor with an equivalent award (as defined in such officers’ change in control severance agreements). Additionally, 25% of the inducement options granted to the Chief Executive Officer will vest (if not previously vested) in the event her employment is terminated without cause, or if she terminates her employment for good reason (as such terms are defined in her employment agreement).

The following summarizes all stock option activity during the years ended December 31, 2017, 2016, and 2015:

In thousands	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Thousands)
Options outstanding at December 31, 2014	446,365	$ 114.99		
Granted in 2015	197,318	57.26		
Exercised in 2015	(3,500)	60.40		$ 67
Unvested options forfeited in 2015	(65,982)	79.59		
Vested options expired in 2015	(113,988)	148.83		
Options outstanding at December 31, 2015	460,213	$ 87.36		
Granted in 2016	15,037	26.15		
Exercised in 2016	—	—		$ —
Unvested options forfeited in 2016	(57,014)	75.74		
Vested options expired in 2016	(47,689)	160.61		
Options outstanding at December 31, 2016	370,547	$ 77.23		
Granted in 2017	33,855	10.00		
Exercised in 2017	—	—		$ —
Unvested options forfeited in 2017	(9,872)	73.31		
Vested options expired in 2017	(85,563)	110.44		
Options outstanding at December 31, 2017	308,967	$ 60.80	5.86	$ —
Vested and expected to vest at December 31, 2017	308,967	$ 60.80	5.86	$ —
Exercisable at December 31, 2017	201,594	$ 75.42	4.66	$ —

The aggregate intrinsic value at year end in the table above represents the total pre-tax intrinsic value that would have been received by the option holders if all of the in-the-money options were exercised on December 31, 2017. The pre-tax intrinsic value is the difference between the closing price of our common stock on December 31, 2017 and the exercise price for each in-the-money option. This value fluctuates with the changes in the price of our common stock.

The following table summarizes information about stock options outstanding at December 31, 2017:

Range of Exercise Prices	Number Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number Exercisable	Weighted-Average Exercise Price
$ 0.00 - 29.99	48,892	$ 14.97	9.39	3,759	$ 26.15
$ 30.00 - 54.99	96,866	38.39	7.73	48,433	38.39
$ 55.00 - 79.99	94,903	70.27	3.96	85,785	69.57
$ 80.00 - 104.99	30,941	88.28	5.34	26,253	89.35
$ 105.00 - 129.99	22,900	119.73	2.23	22,900	119.73
$ 130.00 - 159.99	14,465	151.51	0.70	14,465	151.51
	308,967	$ 60.80	5.86	201,595	$ 75.42

The fair value of each option grant is estimated on the date of grant using the Black-Scholes Option-Pricing Model based on the following weighted-average assumptions used for grants during 2017, 2016, and 2015:

	Year Ended December 31, 2017	2016	2015
Expected term (in years)	6.25	6.25	6.24
Expected stock price volatility	53.70%	44.80%	40.60%
Risk-free interest rate	2.16%	1.48%	1.58%
Expected dividend yield	—%	—%	5.69%

Expected term is estimated using the simplified method, which takes into account vesting and contractual term. The simplified method is being used to calculate expected term instead of historical experience due to a lack of relevant historical data resulting from changes in option vesting schedules and changes in the pool of employees receiving option grants. Expected stock price volatility is based on the historical volatility from traded shares of our stock over the expected term. The risk-free interest rate is based on the rate of a zero-coupon U.S. Treasury instrument with a remaining term approximately equal to the expected term. Expected dividend yield is based on historical stock price movement and anticipated future annual dividends over the expected term. Future annual dividends over the expected term are estimated to be nil.

The weighted-average fair value of options granted during 2017, 2016, and 2015 was $5.32, $11.66, and $13.60, respectively. As of December 31, 2017, there was $0.7 million of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted average period of approximately 2.18 years.

Cash Stock Appreciation Rights

In 2016 and 2017 the Board approved grants of cash settling stock appreciation rights under the 2013 Plan. Cash stock appreciation rights vest in 25% increments on the first four anniversaries of the date of grant. Cash stock appreciation rights settle solely in cash and are treated as a liability.

The following summarizes all cash stock appreciation rights during the year ended December 31, 2017:

	Number of Units	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Cash stock appreciation rights outstanding at December 31, 2016	—	$ —	
Granted in 2017	86,618	9.70	
Exercised in 2017	—	—	
Forfeited in 2017	—	—	
Cash stock appreciation rights outstanding at December 31, 2017	86,618	$ 9.70	9.48
Vested and expected to vest at December 31, 2017	86,618	$ 9.70	9.48
Exercisable at December 31, 2017	—	$ —	0.00

The fair value of each option grant is estimated on the date of grant using the Black-Scholes Option-Pricing Model based on the following weighted-average assumptions used for grants during 2017:

	2017
Expected term (in years)	6.25
Expected stock price volatility	54.45%
Risk-free interest rate	2.23%
Expected dividend yield	—%

Expected term is estimated using the simplified method, which takes into account vesting and contractual term. The simplified method is being used to calculate expected term instead of historical experience due to a lack of relevant historical data resulting from changes in cash stock appreciation right vesting schedules and changes in the pool of employees receiving cash stock appreciation right grants. Expected stock price volatility is based on the historical volatility from traded shares of our stock over the expected term. The risk-free interest rate is based on the rate of a zero-coupon U.S. Treasury instrument with a remaining term approximately equal to the expected term. Expected dividend yield is based on historical stock price movement and anticipated future annual dividends over the expected term. Future annual dividends over the expected term are estimated to be nil.

The fair value of each cash stock appreciation right is estimated on the date of grant using the Black-Scholes Option-Pricing Model and is revalued at the end of each period. Changes in fair value are recorded to the income statement as changes to expense. As of December 31, 2017, there was $0.4 million of total unrecognized compensation cost related to unvested cash stock appreciation right grants. This cost is expected to be recognized over a weighted average period of approximately 3.48 years. Changes in our stock price, the volatility of our stock price, and the risk-free rate of interest will result in adjustments to compensation expense and the corresponding liability over the applicable service period

Unvested Shares

Unvested shares granted as inducement awards or under the 2013 Plan vest in three equal increments on the first three anniversaries of their date of grant. Unvested shares settle solely in common stock and are treated as equity. Outstanding unvested shares granted to officers as inducement awards or under the 2013 Plan vest in full (to the extent not previously vested) upon a change in control if such unvested shares are not assumed or replaced by a publicly-traded successor with an equivalent award (as such terms are defined in such officers' change-in-control severance agreements).

Following the third quarter 2015 resignation of our former CEO, vesting was accelerated on his unvested shares (pursuant to the terms of his employment agreement and inducement award), for which we recognized $1.2 million of accelerated expense in July 2015.

The following summarizes all unvested share activity during 2017, 2016, and 2015:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested shares outstanding at December 31, 2014	79,007	$ 80.89
Granted in 2015	83,626	63.80
Vested in 2015	(50,507)	82.27
Forfeited in 2015	(15,911)	78.39
Unvested shares outstanding at December 31, 2015	96,215	$ 65.69
Granted in 2016	74,192	26.32
Vested in 2016	(36,492)	66.96
Forfeited in 2016	(39,372)	57.79
Unvested shares outstanding at December 31, 2016	94,543	$ 37.59
Granted in 2017	160,962	9.81
Vested in 2017	(40,979)	41.39
Forfeited in 2017	(13,304)	27.84
Unvested shares outstanding at December 31, 2017	201,222	$ 15.23

The fair value of each unvested share is estimated on the date of grant as the closing market price of our common stock on the date of grant. As of December 31, 2017, there was $2.1 million of total unrecognized compensation cost related to unvested shares. This cost is expected to be recognized over a weighted average period of approximately 1.94 years.

Phantom Stock Units

In 2016 and 2017 the Board approved grants of phantom stock units under the 2013 Plan. Phantom stock units vest in 25% increments on the first four anniversaries of the date of grant. Phantom stock units settle solely in cash and are treated as a liability. Grants of phantom stock units made to officers under the 2013 Plan vest in full (to the extent not previously vested) upon a change in control if they are not assumed or replaced by a publicly-traded successor with an equivalent award (as such terms are defined in such officers' change-in-control severance agreements).

The following summarizes all phantom stock unit activity during 2017:

	Number of Units	Weighted-Average Grant Date Fair Value
Phantom stock units outstanding at December 31, 2015	—	$ —
Granted in 2016	78,140	26.90
Vested in 2016	—	—
Forfeited in 2016	(24,976)	26.90
Phantom stock units outstanding at December 31, 2016	53,164	$ 26.90
Granted in 2017	56,000	9.70
Vested in 2017	(12,483)	26.90
Forfeited in 2017	(14,644)	22.63
Phantom stock units outstanding at December 31, 2017	82,037	$ 15.92

The fair value of each phantom stock unit is estimated on the date of grant as the closing market price of our common stock on the date of grant. Changes in our stock price will result in adjustments to compensation expense and the corresponding liability over the applicable service period. As of December 31, 2017, there was $0.7 million of total unrecognized compensation cost related to phantom stock units. This cost is expected to be recognized over a weighted average period of approximately 3.06 years.

Performance Stock Units

Under the 2013 Plan and grants of inducement awards, performance stock units are a form of share-based award similar to unvested shares, except that the number of shares ultimately issued is based on our performance against specific performance goals over a roughly three-year period. At the end of the performance period, the number of shares of stock issued will be determined in accordance with the specified performance target(s) in a range between 0% and 100%. Performance stock units vest solely in common stock and are treated as equity. Upon a change in control, performance stock units granted to officers vest on a pro-rated basis (based on time elapsed from the grant) to the extent not previously settled if they are not assumed or replaced by a publicly-traded successor with an equivalent award (as such terms are defined in such officers' change-in-control severance agreements).

The following summarizes all performance stock unit activity during 2017, 2016, and 2015:

	Number of Units	Weighted-Average Grant-Date Fair Value
Performance stock units outstanding at December 31, 2014	60,363	$ 76.07
Granted in 2015	66,982	43.02
Settled in 2015	—	—
Forfeited in 2015	(57,211)	75.40
Performance stock units outstanding at December 31, 2015	70,134	$ 45.05
Granted in 2016	47,300	19.00
Settled in 2016	—	—
Forfeited in 2016	(33,004)	57.59
Performance stock units outstanding at December 31, 2016	84,430	$ 25.56
Granted in 2017	89,124	9.95
Settled in 2017	—	—
Forfeited in 2017	(10,494)	47.90
Performance stock units outstanding at December 31, 2017	163,060	$ 15.59

The fair value of each performance stock unit is estimated on the date of grant as the closing market price of our common stock on the date of grant, minus the present value of anticipated dividend payments. Periodic compensation expense is based on the current estimate of future performance against specific performance goals over a three-year period and is adjusted up or down based on those estimates. As of December 31, 2017, there was $1.3 million of total unrecognized compensation cost related to performance stock units. This cost is expected to be recognized over a weighted average period of approximately 1.73 years. Future annual dividends over the expected term are estimated to be nil.

Cash Performance Stock Units

In 2016 and 2017, the Board of Directors approved grants of cash performance stock units under the 2013 Plan. Cash performance stock units are a form of share-based award similar to phantom stock units, except that the number of units ultimately issued is based on our performance against specific performance goals measured after a three-year period. At the end of the performance period, the number of units vesting will be determined in accordance with specified performance target(s) in a range between 0% and 100%. Cash performance stock units settle solely in cash and are treated as a liability. Upon a change in control, cash performance stock units granted to officers vest on a pro-rated basis (based on time elapsed from the grant) to the extent not previously settled if they are not assumed or replaced by a publicly-traded successor with an equivalent award (as such terms are defined in such officers' change-in-control severance agreements).

The following summarizes all performance stock unit activity during 2017:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Cash performance stock units outstanding at December 31, 2015	—	$ —
Granted in 2016	51,209	26.90
Settled in 2016	—	—
Forfeited in 2016	(6,812)	26.90
Cash performance stock units outstanding at December 31, 2016	44,397	$ 26.90
Granted in 2017	109,887	10.10
Settled in 2017	—	—
Forfeited in 2017	(3,778)	26.90
Cash performance stock units outstanding at December 31, 2017	150,506	$ 14.63

The fair value of each cash performance stock unit is estimated on the date of grant as the closing market price of our common stock on the date of grant, minus the present value of anticipated dividend payments. Periodic compensation expense is based on the current estimate of future performance against specific performance goals over a three-year period and is adjusted up or down based on those estimates. As of December 31, 2017, there was $0.9 million of total unrecognized compensation cost related to performance stock units. This cost is expected to be recognized over a weighted average period of approximately 2.13 years. Future annual dividends over the expected term are estimated to be nil.

Note I — Commitments and Contingencies

At December 31, 2017, we had letters of credit in the amount of $2.8 million backed by cash collateral. No amounts were drawn against these letters of credit at December 31, 2017. These letters of credit exist to support insurance programs relating to workers' compensation, automobile, and general liability.

In the normal course of our business, we are obligated under some agreements to indemnify our clients as a result of claims that we infringe on the proprietary rights of third parties. The terms and duration of these commitments vary and, in some cases, may be indefinite, and certain of these commitments do not limit the maximum amount of future payments we could become obligated to make there under; accordingly, our actual aggregate maximum exposure related to these types of commitments cannot be reasonably estimated. Historically, we have not been obligated to make significant payments for obligations of this nature, and no liabilities have been recorded for these obligations in our financial statements.

We are also currently subject to various other legal proceedings in the course of conducting our businesses and, from time to time, we may become involved in additional claims and lawsuits incidental to our businesses. In the opinion of management, after consultation with counsel, none of these matters is currently considered to be reasonably possible of resulting in a material adverse effect on our consolidated financial position or results of operations. Nevertheless, we cannot predict the impact of future developments affecting our pending or future claims and lawsuits and any resolution of a claim or lawsuit within a particular fiscal quarter may adversely impact our results of operations for that quarter. We expense legal costs as incurred, and all recorded legal liabilities are adjusted as required as better information becomes available to us. The factors we consider when recording an accrual for contingencies include, among others: (i) the opinions and views of our legal counsel, (ii) our previous experience, and (iii) the decision of our management as to how we intend to respond to the complaints.

Note J — Leases

We lease real estate and certain equipment under numerous lease agreements, most of which contain some renewal options. The total rent expense applicable to operating leases was $13.1 million, $12.4 million, and $13.6 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Step rent provisions and escalation clauses, normal tenant improvements, rent holidays, and other lease concessions are taken into account in computing minimum lease payments. We recognize the minimum lease payments on a straight-line basis over the minimum lease term.

The future minimum rental commitments for all non-cancelable operating leases with terms in excess of one year as of December 31, 2017 are as follows:

In thousands	
2018	$ 8,753
2019	8,500
2020	6,495
2021	3,889
2022	2,016
Thereafter	1,823
Total	$ 31,476

We also lease certain equipment and software under capital leases. Our capital lease obligations at year-end were as follows:

In thousands	2017	2016
Current portion of capital leases	$ 506	$ 559
Long-term portion of capital leases	486	1,018
Total capital lease obligation	$ 992	$ 1,577

The future minimum lease payments for all capital leases operating as of December 31, 2017 are as follows:

In thousands	
2018	$ 506
2019	453
2020	32
2021	1
2022	—
Thereafter	—
Total	$ 992

Note K — Earnings (Loss) Per Share

In periods in which the company has net income, the company is required to calculate earnings per share using the two-class method. The two-class method is required because the company's unvested shares granted prior to 2017 are considered participating securities. Participating securities have the right to receive dividends should the company declare dividends on its common stock. Under the two-class method, undistributed and distributed earnings are allocated on a pro-rata basis to the common and restricted stockholders. The weighted-average number of common and restricted shares outstanding during the period is then used to calculate EPS for each class of shares.

In periods in which the company has a net loss, basic loss per share is calculated using the treasury stock method. The treasury stock method is calculated by dividing the net loss by the weighted-average number of common shares outstanding during the period. The two-class method is not used, because the two-class calculation is anti-dilutive.

On January 31, 2018, we affected a 1-for-10 reverse stock split of our common stock. The calculation of basic and diluted earnings (loss) per share, as presented in the consolidated financial statements, have been adjusted to retroactively apply the reverse stock split.

Reconciliations of basic and diluted earnings (loss) per share ("EPS") are as follows:

In thousands, except per share amounts	2017	2016	2015
Net Income (Loss)			
Income (loss) from continuing operations	$ (41,860)	$ (89,778)	$ (181,066)
Income (loss) from discontinued operations	—	(41,159)	10,138
Net income (loss)	$ (41,860)	$ (130,937)	$ (170,928)
Basic EPS			
Weighted-average common shares outstanding used in earnings per share computations	6,192	6,149	6,164
Basic earnings (loss) per share			
Continuing operations	$ (6.76)	$ (14.60)	$ (29.37)
Discontinued operations	—	(6.69)	1.64
Basic earnings (loss) per share	$ (6.76)	$ (21.29)	$ (27.73)
Diluted EPS			
Shares used in diluted earnings per share computations	6,192	6,149	6,164
Basic earnings (loss) per share			
Continuing operations	$ (6.76)	$ (14.60)	$ (29.37)
Discontinued operations	—	(6.69)	1.64
Basic earnings (loss) per share	$ (6.76)	$ (21.29)	$ (27.73)
Computation of Shares Used in Earnings Per Share Computations			
Weighted-average common shares outstanding	6,192	6,149	6,164
Weighted-average common equivalent shares-dilutive effect of stock options and awards	—	—	—
Shares used in diluted earnings per share computations	6,192	6,149	6,164

For the purpose of calculating the shares used in the diluted EPS calculations, 0.3 million, 0.4 million, and 0.5 million anti-dilutive options have been excluded from the EPS calculations for the years ended December 31, 2017, 2016, and 2015, respectively. 0.1 million, 0.1 million, and 0.1 million anti-dilutive unvested shares were excluded from the calculation of shares used in the diluted EPS calculation for the years ended December 31, 2017, 2016, and 2015, respectively.

Note L — Comprehensive Income (Loss)

Comprehensive income (loss) for a period encompasses net income (loss) and all other changes in equity other than from transactions with our stockholders. Our comprehensive income (loss) was as follows:

	Year Ended December 31,		
In thousands	2017	2016	2015
Net income (loss)	$ (41,860)	$ (130,937)	$ (170,928)
Other comprehensive income (loss):			
Adjustment to pension liability	2,597	(5,103)	9,408
Tax (expense) benefit	(1,038)	2,041	(3,763)
Adjustment to pension liability, net of tax	1,559	(3,062)	5,645
Foreign currency translation adjustment	316	444	(1,976)
Total other comprehensive income (loss)	$ 1,875	$ (2,618)	$ 3,669
Total comprehensive income (loss)	$ (39,985)	$ (133,555)	$ (167,259)

Changes in accumulated other comprehensive income (loss) by component are as follows:

In thousands	Defined Benefit Pension Items	Foreign Currency Items	Total
Balance at December 31, 2015	$ (43,915)	$ 355	$ (43,560)
Other comprehensive loss, net of tax, before reclassifications	—	444	444
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	(3,062)	—	(3,062)
Net current period other comprehensive income (loss), net of tax	(3,062)	444	(2,618)
Balance at December 31, 2016	$ (46,977)	$ 799	$ (46,178)
Other comprehensive loss, net of tax, before reclassifications	—	316	316
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	1,559	—	1,559
Net current period other comprehensive income (loss), net of tax	1,559	316	1,875
Balance at December 31, 2017	$ (45,418)	$ 1,115	$ (44,303)

Reclassification amounts related to the defined pension plans are included in the computation of net period pension benefit cost (see Note F, *Employee Benefit Plans*).

Note M — Acquisition and Disposition

On March 4, 2016, we acquired Aleutian Consulting, Inc. for $3.5 million in cash. The results of the acquired business, which now operates as Harte Hanks Consulting, have been included in continuing operations beginning the day of acquisition. The residual purchase price methodology was used for determination of fair value of the tangible assets and goodwill allocation. The calculation relied on management's assumptions, which are considered Level 3 inputs, as they are unobservable

On March 16, 2015, we acquired 3Q Digital. The results of the acquired entity have been included in continuing operations beginning the day of acquisition. The fair value of the purchase consideration recognized on acquisition was $48.2 million including an initial purchase price of $30.2 million in cash and a $17.9 million liability for the present value of a contingent consideration included in the agreement. The contingent consideration requires us to pay the former owners an additional sum dependent upon achievement of certain goals up to $35.0 million in cash. For the year ending December 31, 2017, 3Q Digital had achieved the maximum contingent consideration payout. A portion of the fair value of the purchase consideration is allocated to the tangible and intangible assets transferred based on their estimated fair value at the acquisition date. The acquired intangible assets are as follows: customer relationships of $4.3 million (amortized over seven years), trade names and trademarks of $0.3 million (amortized over two years), and non-compete agreements of $0.2 million (amortized over three years).

The following tables summarize the consideration paid and the amounts of estimated fair value of the assets acquired and liabilities assumed at the acquisition date.

In thousands	
Cash consideration per purchase agreement	$ 30,245
Estimated fair value of contingent consideration	17,940
Fair value of total consideration	$ 48,185

In thousands	
Recognized amounts of tangible assets and liabilities:	
Current assets	$ 4,135
Property and equipment	164
Other assets	389
Current liabilities	(822)
Other liabilities	—
Total tangible assets and liabilities	$ 3,866
Identifiable intangible assets	4,773
Goodwill (including deferred tax adjustment of $2,299)	41,845
Total	$ 50,484

A reconciliation of the beginning and ending accrued balances of the contingent consideration using significant unobservable inputs (Level 3) is as follows:

In thousands		
Accrued contingent consideration liability as of December 31, 2015	$	20,277
Accretion of interest		2,430
Adjustments to fair value		7,018
Accrued contingent consideration liability as of December 31, 2016		29,725
Accretion of interest		4,162
Accrued contingent consideration liability as of December 31, 2017	$	33,887

Adjustments to the fair value of the contingent consideration are recorded within the "Other, net" line in the Consolidated Statements of Comprehensive Income (Loss).

On February 28, 2018, we completed the sale of 3Q Digital to an entity owned by certain former owners of the 3Q Digital business. Consideration for the sale included $5.0 million in cash proceeds, subject to certain working capital adjustments, and up to $5.0 million in additional consideration if the 3Q Digital business is sold again. The contingent consideration that related to Harte Hanks' acquisition of 3Q Digital in 2015 was assigned to the buyer, therefore relieving Harte Hanks of the obligation. See Note P, *Subsequent Events*, for further discussion.

On April 14, 2015, Harte Hanks sold its B2B research business. The sale resulted in a pre-tax loss of $9.5 million in the second quarter of 2015. The related asset group represented less than 5% of our total 2014 revenue and did not meet the criteria to be classified as a component of the entity. As such, the related loss on sale is included in continuing operations of the Consolidated Financial Statements. The sale resulted in write-offs of both goodwill and intangible assets allocated to the B2B research business (see Note E, *Goodwill and Other Intangible Assets*).

Note N — Discontinued Operations

On December 23, 2016, we completed the sale of our Trillium business to Syncsort. The decision to sell Trillium was largely based on the prioritization of investments in support of optimizing our clients' customer journey across an omni-channel delivery platform, and the determination that the Trillium business is likely to be a better strategic fit and more valuable asset to other parties. The business was sold for gross proceeds of approximately $112.0 million in cash and resulted in a loss on the sale of $39.9 million, net of $4.6 million of income tax benefit. We believe that the sale of Trillium will allow us to better focus on our core Customer Interaction businesses and moving towards growth.

Because the sale of Trillium represents a strategic shift that has a major effect on our operations and financial results, the results of operations, financial position, and cash flows for Trillium are reported separately as discontinued operations for all periods presented. Results of the remaining Harte Hanks business are reported as continuing operations.

Summarized operating results for the Trillium discontinued operations, through the dates of disposal, are as follows:

	Year Ended December 31,		
In thousands	2017	2016	2015
Revenue	$ —	$ 45,639	$ 51,135
Labor	—	18,687	22,219
Production and distribution	—	703	1,404
Advertising, selling, general and administrative	—	10,255	9,951
Depreciation, software and intangible asset amortization	—	2,304	1,867
Interest expense, net	—	7,133	(256)
Loss on sale	—	44,529	—
Other, net	—	(1,207)	366
Income (loss) from discontinued operations before income taxes	—	(36,765)	15,584
Income tax expense	—	4,394	5,446
Net income (loss) from discontinued operations	$ —	$ (41,159)	$ 10,138

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Note O — Selected Quarterly Data (Unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
In thousands, except per share amounts	2017	2016	2017	2016	2017	2016	2017	2016
Revenues	$ 94,894	$ 99,563	$ 94,722	$ 97,317	$ 94,424	$ 97,425	$ 99,866	$ 110,107
Operating income (loss) from continuing operations	(6,342)	(8,547)	(1,791)	(6,689)	950	(4,086)	(33,682)	(34,514)
Income (loss) from continuing operations before income taxes	(8,862)	(9,278)	(4,852)	(8,001)	(2,098)	(5,386)	(35,942)	(46,483)
Loss from continuing operations	(7,386)	(6,700)	(2,653)	(5,902)	(2,480)	(4,285)	(29,341)	(72,891)
Discontinued operations, net of tax	—	1,097	—	1,639	—	1,244	—	(45,139)
Net income (loss)	$ (7,386)	$ (5,603)	$ (2,653)	(4,263)	$ (2,480)	$ (3,041)	$ (29,341)	$ (118,030)
Basic earnings (loss) per common share								
Continuing operations	$ (1.20)	$ (1.09)	$ (0.43)	$ (1.12)	$ (0.40)	$ (0.70)	$ (4.73)	$ (11.83)
Discontinued operations	$ —	$ 0.18	$ —	$ 0.40	$ —	$ 0.20	$ —	$ (7.33)
Diluted earnings (loss) per common share								
Continuing operations	$ (1.20)	$ (1.09)	$ (0.43)	$ (1.12)	$ (0.40)	$ (0.70)	$ (4.73)	$ (11.83)
Discontinued operations	$ —	$ 0.18	$ —	0.40	$ —	$ 0.20	$ —	$ (7.33)

Earnings per common share amounts are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share amounts may not equal the quarterly earnings per share amounts or the annual earnings per share amounts due to rounding.

Note P — Subsequent Events

Amendment to Credit Facility

On January 9, 2018, we entered into an amendment to the Texas Capital Credit Facility that increased the borrowing capacity to $22 million and extended the maturity by one year to April 17, 2020. The Texas Capital Credit Facility remains secured by substantially all of our assets and continues to be guaranteed by HHS Guaranty, an entity formed by certain members of the descendants of one of our founders. For additional information regarding the amendment to the Texas Capital Credit Facility refer to Note C, *Long-Term Debt*.

Securities Purchase Agreement

On January 23, 2018, we entered into a Securities Purchase Agreement with Wipro, LLC. The agreement consisted of a $9.9 million investment in exchange for 9,926 shares of Series A Preferred Stock. Dividends on the Series A Preferred Stock are accrued at a rate of 5.0% per year or the rate that cash dividends were paid in respect to shares of common stock if such rate is greater than 5.0%. The aggregate shares issued under the Securities Purchase Agreements are convertible into 16% of our common stock on a pre-closing basis, priced at $9.91 per share of common stock.

Along with customary protective provisions, Wipro, LLC will be able to designate an observer or director to the Board. We intend to use the proceeds for general corporate purposes including for working capital purposes.

Since 2016, Wipro, LLC has provided a variety of technology-related service to the Company, including database and software development, database support and analytics, IT infrastructure support, and digital campaign management. Transactions with Wipro, LLC will be classified and disclosed in 2018 as related party transactions in accordance with ASC 850, *Related Party Disclosures*, and in accordance with the SEC's Regulation S-X Rule 4-08(k), as applicable.

Reverse Stock Split

On January 31, 2018, we executed a 1-for-10 reverse stock split. Pursuant to the reverse stock split, every 10 pre-split shares were exchanged for one post-split share of Harte Hanks' Common Stock. For additional information regarding the Reverse Stock Split refer to Note A, *Significant Accounting Policies*.

Sale of 3Q Digital

On February 28, 2018, we sold our 3Q Digital, Inc. subsidiary to an entity owned by certain former owners of the 3Q Digital business. Consideration for the sale included $5.0 million in cash proceeds, subject to certain working capital adjustments, and up to $5.0 million in additional consideration if the 3Q Digital business is sold again. The $35.0 million contingent consideration obligation of the company that related to Harte Hanks' acquisition of 3Q Digital in 2015 was assigned to the buyer, therefore relieving Harte Hanks of the obligation.

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INDEX TO EXHIBITS

We are incorporating certain exhibits listed below by reference to other Harte Hanks filings with the Securities and Exchange Commission, which we have identified in parentheses after each applicable exhibit.

Exhibit No.	Description of Exhibit
Acquisition and Dispositions	
2.1	Asset Purchase Agreement, dated September 18, 2013, by and among Harte Hanks Shoppers, Inc., Southern Comprint Co. and Harte Hanks, Inc., on the one hand, and Pennysaver USA Publishing, LLC, Pennysaver USA Printing, LLC, Orbiter Properties, LLC and OpenGate Capital Management, LLC, on the other hand (filed as Exhibit 2.1 to the company's Form 8-K dated September 19, 2013).
2.2	Agreement and Plan of Merger, dated March 16, 2015, among Harte Hanks, Inc., Harte Hanks Smart, Inc., 3Q Digital, Inc. and Maury Domengeaux, as representative to the stockholders of 3Q Digital, Inc. (filed as Exhibit 2.1 to the company's Form 10-Q dated May 7, 2015).
2.3	Membership Interest Purchase Agreement, dated April 14, 2015, between AMI Intermediate, LLC and Harte Hanks, Inc. relating to the sale of Aberdeen Group and Harte Hanks Market Intelligence (filed as Exhibit 2.2 to the company's Form 10-Q dated May 7, 2015).
2.4	Stock Purchase Agreement, dated November 29, 2016, by and among Syncsort Incorporated, Syncsort Limited, Syncsort GmbH, Harte Hanks, Inc., Harte-Hanks UK Limited, Harte-Hanks GmbH, Trillium Software, Inc., Harte-Hanks Trillium UK Limited, Harte-Hanks Trillium Software Germany GmbH and Harte Hanks, Inc. as sellers' representative (filed as Exhibit 2.1 to the company's Form 8-K dated December 30, 2016).
2.5	3Q Agreement, dated May 1, 2017, by and between Harte Hanks, Inc. and 3Q Digital, Inc. and Maury Domengeaux, as representative to the former stockholders and option holders of 3Q Digital, Inc. (filed as Exhibit 2.1 to the company's Form 8-K dated May 4, 2017
2.6	Purchase and Sale Agreement, dated February 28, 2018 among Harte Hanks, Inc., 3Q Digital, Inc. and 3Q Digital Holdings, Inc. (filed as Exhibit 2.1 to the company's Form 8-K dated March 6, 2018)
Charter Documents	
3(a)	Amended and Restated Certificate of Incorporation as amended through May 5, 1998 (filed as Exhibit 3(e) to the company's Form 10-Q for the six months ended June 30, 1998).
3(b)	Fifth Amended and Restated Bylaws (filed as Exhibit 3.1 to the company's Form 8-K dated December 23, 2015).
3(c)	Certificate of Amendment of Incorporation dated January 31, 2018 (filed as Exhibit 3.2 to the company's Form 8-A/A dated January 31, 2018).
3(d)	Certificate of Designation of Series A Preferred Stock of Harte Hanks, Inc. (filed as Exhibit 3.1 to the company's form 8-K dated January 29, 2018).
Credit Agreements	
10.1(a)	Term Loan Agreement by and between Harte Hanks, Inc. and Wells Fargo Bank, as administrative agent, dated March 10, 2016 (filed as Exhibit 10.1 to the company's Form 8-K dated March 11, 2016).
10.1(b)	Waiver and First Amendment to Credit Agreement as of May 16, 2016, with Wells Fargo Bank, N.A., as Administrative Agent (filed as Exhibit 10.1 in the company's Form 8-K dated May 20, 2016).
10.1(c)	Waiver and Second Amendment to Credit Agreement as of August 5, 2016, with Wells Fargo Bank, N.A., as Administrative Agent (filed as Exhibit 10.1 in the company's Form 8-K dated August 9, 2016).
10.1(d)	Waiver to Credit Agreement dated November 8, 2016, with Wells Fargo Banks, N.A., as Administrative Agent (filed as Exhibit 10.1 in the company's Form 10-Q dated November 9, 2016).
10.1(e)	Waiver to Credit Agreement dated August 14, 2017, with Texas Capital Bank, N.A., as lender (filed as Exhibit 10.1 to the company's form 10-Q dated August 17, 2017).
10.1(f)	First Amendment to Credit Agreement, dated January 9, 2018, between Harte Hanks, Inc. and Texas Capital Bank, National Association (filed as Exhibit 10.1 to the company's form 8-K dated January 10, 2018).
10.1(g)	First Amendment to Security Agreement, dated January 9, 2018, between Harte Hanks, Inc. and Texas Capital Bank, National Association (filed as Exhibit 10.2 to the company's form 8-K dated January 10, 2018).

10.1(h)	Revolving Promissory Note, dated January 9, 2018, by Harte Hanks, Inc. in favor of Texas Capital Bank, National Association (filed as Exhibit 10.3 to the company's form 8-K dated January 10, 2018).
10.1(i)	Amended and Restated Fee, Reimbursement and Indemnity Agreement, dated January 9, 2018, between Harte Hanks, Inc. and HHS Guaranty, LLC (filed as Exhibit 10.4 to the company's form 8-K dated January 10, 2018).

Management and Director Compensatory Plans and Forms of Award Agreements

10.2(a)	Harte Hanks, Inc. Restoration Pension Plan (As Amended and Restated Effective January 1, 2008) (filed as Exhibit 10.1 to the company’s Form 8-K dated June 27, 2008).
10.2(b)	Harte Hanks, Inc. 2005 Omnibus Incentive Plan (As Amended and Restated Effective February 13, 2009) (filed as Exhibit 10.1 to the company’s Form 8-K dated February 13, 2009).
10.2(c)	Amendment to Harte Hanks, Inc. 2005 Omnibus Incentive Plan, dated as of May 12, 2009 (incorporated by reference to Exhibit 4.4 to Harte Hanks Registration Statement on Form S-8, filed on May 12, 2009).
10.2(d)	Form of 2005 Omnibus Incentive Plan Non-Qualified Stock Option Agreement (filed as Exhibit 10.2(i) to the company’s Form 10-K dated March 7, 2012).
10.2(e)	Form of 2005 Omnibus Incentive Plan Bonus Stock Agreement (filed as Exhibit 10.2(j) to the company’s Form 10-K dated March 7, 2012).
10.2(f)	Form of 2005 Omnibus Incentive Plan Restricted Stock Award Agreement (filed as Exhibit 10.2(k) to the company’s Form 10-K dated March 7, 2012).
10.2(g)	Form of 2005 Omnibus Incentive Plan Performance Unit Award Agreement (filed as Exhibit 10.2(l) to the company’s Form 10-K dated March 7, 2012).
10.2(h)	Summary of Non-Employee Directors’ Compensation (included within the company’s Schedule of 14A proxy statement filed April 11, 2016).
10.2(i)	Harte Hanks, Inc. 2013 Omnibus Incentive Plan (filed as Annex A to the company’s Schedule 14A proxy statement filed April 15, 2013).
10.2(j)	Form of 2013 Omnibus Incentive Plan Non-Qualified Stock Option Agreement (filed as Exhibit 10.4 to the company’s Registration Statement on Form S-8 dated June 7, 2013).
10.2(k)	Form of 2013 Omnibus Incentive Plan Restricted Stock Award Agreement (General) (filed as Exhibit 10.1 to the company’s Registration Statement on Form S-8 dated June 7, 2013).
10.2(l)	Form of 2013 Omnibus Incentive Plan Restricted Stock Award Agreement (Director) (filed as Exhibit 10.2 to the company’s Registration Statement on Form S-8 dated June 7, 2013).
10.2(m)	Form of 2013 Omnibus Incentive Plan Performance Unit Award Agreement (filed as Exhibit 10.3 to the company’s Registration Statement on Form S-8 dated June 7, 2013).
10.2(n)	Form of Non-Qualified Stock Option Agreement between the company and Karen A. Puckett (filed as Exhibit 10.2 to the company's Form 8-K dated September 14, 2015).
10.2(o)	Form of Restricted Stock Award Agreement between the company and Karen A. Puckett (filed as Exhibit 10.3 to the company's Form 8-K dated September 14, 2015).
10.2(p)	Form of Performance Unit Award Agreement between the company and Karen A. Puckett (filed as Exhibit 10.4 to the company's Form 8-K dated September 14, 2015).
10.2(q)	Form of Non-Qualified Stock Option Agreement between Harte Hanks, Inc. and Shirish R. Lal (filed as Exhibit 10.2 to the company's Form 8-K dated February 17, 2016).
10.2(r)	Form of Restricted Stock Award Agreement between Harte Hanks, Inc. and Shirish R. Lal (filed as Exhibit 10.3 to the company's Form 8-K dated February 17, 2016).
10.2(s)	First Amendment to the Harte Hanks, Inc. Amended & Restated Restoration Pension Plan, dated October 11, 2016 (filed as Exhibit 10.1 to the company's Form 8-K dated October 14, 2016).
10.2(t)	Form of Non-Qualified Stock Option Agreement between Harte Hanks, Inc. and Frank M. Grillo (filed as Exhibit 10.1 to the company's Form 10-K dated June 6, 2017).
10.2(u)	Form of Restricted Stock Agreement between Harte Hanks, Inc. and Frank M. Grillo (filed as Exhibit 10.2 to the company's Form 10-K dated June 6, 2017).
10.2(v)	Form of Restricted Stock Agreement between Harte Hanks, Inc. and Jon C. Biro (filed as Exhibit 10.2 to the company's Form 8-K dated November 17, 2017).

10.2(w)	Form of Non-Qualified Stock Option Agreement between Harte Hanks, Inc. and Jon C. Biro (filed as Exhibit 10.3 to the company's Form 8-K dated November 17, 2017).
10.2(x)	Form of Performance Unit Award Agreement between Harte Hanks, Inc. and Jon C. Biro (filed as Exhibit 10.4 to the company's Form 8-K dated November 17, 2017).
10.2(y)	Securities Purchase Agreement, dated January 23, 2018, by and between Harte Hanks, Inc. and Wipro, LLC (filed as Exhibit 10.1 to the company's Form 8-K dated January 29, 2018).
10.2(z)	Form of Registration Rights Agreement (filed as Exhibit 10.2 to the company's Form 8-K dated January 29, 2018).

Executive Officer Employment-Related and Separation Agreements

10.3(a)	Form of Severance Agreement between the company and its Executive Officers (filed as Exhibit 99.3 to the company's Form 8-K, dated February 2, 2018).
10.3(b)	Form of Employment Restrictions Agreement signed by the Corporate Officers of the company (filed as Exhibit 10.3 to the company's Form 8-K dated March 15, 2011).
10.3 (c)	Transition Agreement dated July 30, 2012 between the company and Gary J. Skidmore (filed as Exhibit 10.2 to the company's 8-K dated August 2, 2012).
10.3 (d)	Form of Indemnification Agreement for Directors and Officers (filed as Exhibit 10.1 to the company's 8-K dated August 2, 2012).
10.3 (e)	Retirement & Consulting Agreement between the company and Larry D. Franklin dated June 7, 2013 (filed as Exhibit 10.5 to the company's 8-K dated June 11, 2013).
10.3 (f)	Employment Agreement between the company and Robert A. Philpott dated June 8, 2013 (filed as Exhibit 10.1 to the company's 8-K dated June 11, 2013).
10.3 (g)	Form of Severance Agreement between the company and certain of its officers (filed as Exhibit 10.6 to the company's 8-K dated June 11, 2013).
10.3 (h)	Executive Severance Policy applicable to the company's executive officers and certain others (filed as Exhibit 10.1 to the company's Form 8-K, dated January 30, 2015).
10.3(i)	Retention Bonus Agreement applicable to the company's executive officers (filed as Exhibit 10.1 to the company's Form 8-K, dated July 9, 2015).
10.3(j)	Employment Agreement between the company and Karen A. Puckett dated September 13, 2015 (filed as Exhibit 10.1 to the company's Form 8-K, dated September 14, 2015).
10.3(k)	Employment Agreement between the company and Shirish R. Lal dated February 3, 2016 (filed as Exhibit 10.1 to the company's Form 8-K, dated February 17, 2016).
10.3(l)	Retention Bonus Agreement between the company and Robert L. R. Munden dated December 31, 2016 (filed as Exhibit 10.1 to the company's Form 8-K, dated December 15, 2016).
10.3(m)	Transition and Consulting Agreement, dated as of December 31, 2016, between the company and Douglas C. Shepard (filed as Exhibit 10.2 to the company's Form 8-K, dated December 15, 2016).
10.3(n)	Letter Agreement, effective September 13, 2017, by and between Harte Hanks, Inc. and Karen A. Puckett, amending Employment Agreement with Karen A. Puckett (filed as Exhibit 10.1 to the company's form 8-K dated September 14, 2017).
10.3(o)	Employment Agreement between the company and Jon C. Biro dated October 30, 2017 (filed as Exhibit 10.1 to the company's Form 8-K, dated November 17, 2017).
10.3(p)	Letter Agreement dated February 1, 2018 by and between the company and Karen A. Puckett, amending Employment Agreement with Karen A. Puckett (filed as Exhibit 99.1 to the company's From 8-K, dated February 2, 2018)
10.3(q)	Form of Amendment to Service Agreement (filed as Exhibit 99.2 to the company's Form 8-K, dated February 2, 2018)

Material Agreements

10.4(a)	Cooperation Agreement, dated July 18, 2017, by and among Harte Hanks, Inc., Sidus Investment Management, LLC, Sidus Investment Partners, L.P., Sidus Double Alpha Fund, L.P., Sidus Double Alpha Fund, Ltd., Sidus Advisors, LLC, Michael J. Barone and Alfred V. Tobia, Jr. (filed as Exhibit 10.1 to the company's Form 8-K dated July 19, 2017)

Other Exhibits

*10.1	Supplier Supply and Services Agreement Between Harte-Hanks Direct, Inc. and Wipro, LLC dated as of July 22, 2016.
*21	Subsidiaries of Harte Hanks, Inc.
*23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
*23.2	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Furnished Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Furnished Certification of Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101	XBRL Interactive Data Files.

*Filed or furnished herewith, as applicable

Supplier Supply and Services Agreement
Between
Harte-Hanks Direct, Inc.
And
Wipro, LLC

This Supplier Supply and Services Agreement is made as of the 22[nd] day of July, 2016 (the "Effective Date") by and between Wipro, LLC with offices located at 2 Tower Center Boulevard, Suite 220 East Brunswick, NJ 08816 ("Supplier") and Harte-Hanks Direct, Inc. including its affiliates and subsidiaries, with its principal place of business at 3800 Horizon Blvd. Suite 500 Trevose, PA 19053("Harte Hanks").

I. <u>SERVICES AND MATERIALS TO BE PROVIDED BY SUPPLIER</u>

A. Subject to the terms and conditions stated in this Agreement, Supplier agrees to perform the professional services as directed by Harte Hanks and/or provide the products and materials in accordance with the delivery schedules (including any interim deadlines, if any, which may be specified in the applicable Order), quantities and other requirements as more fully described in each Order, (hereinafter collectively referred to as “Products/Services”), and Harte Hanks agrees to pay the charges stated in each applicable Order. The Products/Services available to Harte Hanks from Supplier and the associated pricing are listed in Attachment 1. The pricing listed in Attachment 1 is valid for a period of one (1) year(s). The term “Order” shall mean Harte Hanks’ form of purchase or work order used for the purpose of ordering Products/Services. Each Order shall reference this Agreement thereby incorporating the terms and conditions of this Agreement in such an Order. It is understood that the Products/Services rendered under this Agreement will be on an “as ordered” basis and that this Agreement represents no minimum obligation upon Harte Hanks to place Orders with the Supplier. In the event of a conflict between the terms and conditions of this Agreement and an Order, the provisions of this Agreement shall prevail unless the Parties have obtained the express written consent of authorized signatories of each Party to deviate from the terms and conditions of the Agreement for a particular Order. Products/Services shall (a) be provided as per specifications under the Order, and (b) be provided in accordance with generally accepted industry standards; and (c) be provided in accordance with any applicable requirements or restrictions as may be lawfully imposed by governmental authority. Harte Hanks will conduct acceptance testing of the Products/Services within thirty (30) days of the date of submission and notify the Supplier about acceptance or rejection of the Products/Services. Excepting latent defects, Products/Services will be deemed to be accepted by Harte Hanks in the event Harte Hanks does not notify its acceptance or rejection within thirty (30) days from the date of submission. The parent company affiliates and subsidiaries of Harte Hanks and Supplier may also enter into Order(s) pursuant to the terms and conditions of this Agreement during the term of this Agreement. Acceptance testing shall be in addition to any warranty right provided by the Supplier to Harte hanks as stated in this Agreement.

B. Changes. Harte Hanks may at any time during the term of this Agreement require additions, deletions or alterations (all hereinafter referred to as a “Change”) to the required Products/Services. Within ten (10) business days after a request for a Change, Supplier shall submit a proposal to Harte Hanks Representative which includes any changes in Supplier’s costs in the delivery of Products/Services and/or schedule necessitated by the Change. Harte Hanks Representative shall within ten (10) days of receipt of the proposal, either (i) accept the proposal with a written amendment to the applicable Order directing Supplier to perform the Change or (ii) advise Supplier not to perform the Change in which event Supplier shall provide the original Products/Services. No such Change shall be considered nor shall Supplier be entitled to any compensation for work done pursuant to or in contemplation of a Change, unless made pursuant to a written amendment or Change Order issued by Harte Hanks.

C. Work Done By Others. If Supplier’s performance is dependent on work done by others, Supplier shall inspect and promptly report to Harte Hanks' representative any defect that renders such other work unsuitable for Supplier's proper performance. Supplier's silence shall constitute approval of such work as fit and suitable for Supplier's performance.

Supplier's failure to perform its contractual responsibilities, to perform the Services, or to meet the agreed service levels contained within an Order shall be excused if and to the extent the Supplier's non-performance is directly caused by Harte Hanks' omission to act, delay, wrongful action, failure to provide any inputs, or failure to perform its obligations under the Agreement.

II. <u>REPRESENTATIVES</u>

Harte Hanks' Representative is Robert Lord (Robert.lord@hartehanks.com) and Harte Hanks' Contract Representative is Carolyn DeLuca (cdeluca@hartehanks.com) or such other persons as may be designated in writing by Harte Hanks from time to time. Supplier's Representative is Lalit Kashyap (lalit.kashyap@wipro.com) or such other person as may be designated in writing by Supplier from time to time.

III. <u>TERM/TERMINATION</u>

A. Term. Unless otherwise terminated or canceled as provided for herein, this Agreement shall commence on the Effective Date and continue for an initial term of three (3) year(s). The term of each Order shall be set forth in the appropriate Order. In the event this Agreement terminates prior to the completion of an Order, such Order shall continue to be valid for its term and the terms and conditions of this Agreement shall continue to apply to the Order until the Order is complete. Termination or cancellation of an Order shall not terminate this Master Agreement, and the parties shall remain free to enter into future Order(s) pursuant to this Agreement and during the term of this Agreement.

B. **Termination.** Harte Hanks may at any time terminate this Agreement or an Order, in whole or in part, by providing ninety (90) days prior written notice to Supplier, or as otherwise agreed under the specific Order. In such case, Harte Hanks' liability shall be limited to payment of any termination fees (if any, as agreed between the Parties under a specific Order), and the amount due for Products/Services properly performed and/or delivered up to and including the date of termination, and work in progress (which amount shall be substantiated with proof satisfactory to Harte Hanks and shall not exceed the original price of the applicable services or product being terminated) which meet the requirements of this Agreement, and no further Products/Services will be rendered by Supplier. Such payment shall constitute a full and complete discharge of Harte Hanks' obligations.

Either party may terminate this entire Agreement, or any specific Order then in force, in the event of material breach by the other Party, provided that the terminating party has given the other Party thirty (30) days written notice of such breach, identified the nature of the breach, and within said notice period the breaching party has failed to cure the asserted breach.

IV. <u>COMPENSATION/ESTIMATES/INVOICING/TAXES</u>

A . **Compensation.** Harte Hanks agrees to compensate Supplier the agreed upon fees set forth in the applicable Order following Harte Hanks' receipt and acceptance of invoices for the Products/Services provided hereunder.

B . **Estimates.** Whenever an Order authorizes Supplier to invoice Harte Hanks for time and materials (other than travel and living expenses), Supplier shall prepare an estimate of the costs associated with program completion. The estimate shall contain the minimum and maximum estimated costs associated with all phases of project completion and if applicable, shall state labor estimates, including labor of Supplier personnel, in terms of hours per function. Supplier shall submit the estimate to Harte Hanks' Representative for review and approval and shall revise the estimate, and the proposal on which it is based, to the satisfaction of Harte Hanks and Supplier. The final estimate if approved by Harte Hanks shall be executed by both parties (hereafter "approved estimates"). Approved estimates, whenever they are required by this Agreement, shall constitute the only authorization for Supplier to take any action or expend any money in connection with specific promotional works beyond that necessary to complete the estimate itself. Maximum estimated costs may not be exceeded without the prior written consent of Harte Hanks' Representative.

C . **<u>Invoicing.</u>** Supplier agrees to submit invoices referencing the applicable Harte Hanks purchase order number promptly to Harte Hanks' Accounts Payable organization as per the terms of the specific Order. Invoices shall be deemed to have been accepted if Harte Hanks approves the invoice, or does not furnish a written objection specifying the nature of the dispute within thirty (30) days from the date of Harte Hanks receipt of the Supplier's invoice. Invoices shall contain such information as Harte Hanks may reasonably request. Approval of any invoices for payment shall be made when the Products/Services provided have been accepted by Harte Hanks' business managers as being in accordance with the requirements of this Agreement and the applicable Order (in accordance with the time limitations for acceptance testing set forth in Section I.A. above). Acceptance of any part of the Products/Services shall not affect the total and final responsibility of Supplier. Unless this Agreement calls for payment at a later time, invoices shall be payable thirty (30) days after acceptance of the Product/ Services, and after receipt of an accurate invoice by Harte Hanks' Accounts Payable organization. Supplier may charge interest at the rate of 1.5% per month for undisputed payments delayed more than thirty (30) days past due date. Payment of invoices shall not waive Harte Hanks' rights to inspect, test or reject non-conforming Products/Services. Supplier may assign the benefit of its rights of payment to a third party as part of its debt factoring or other legitimate business arrangements, and Harte Hanks expressly consents to such assignments.

D . **Taxes**. Harte Hanks shall reimburse Supplier only for the following tax payments with respect to transactions under this Agreement unless Harte Hanks advises Supplier that an exemption applies: state and local sales taxes, as applicable. Taxes payable by Harte Hanks shall be billed as separate items on Supplier's invoices and shall not be included in Supplier's prices. Harte Hanks shall have the right to have Supplier contest any such taxes that Harte Hanks deems improperly levied at Harte Hanks' expense and subject to Harte Hanks' direction and control.

V. INDEPENDENT CONTRACTOR

The parties' relationship to each other in the performance of this Agreement is that of independent contractors. Nothing contained in this Agreement will place the parties in the relationship of partners, joint ventures, principal-agent, or employer-employee, and neither party will have any right either to obligate or to bind the other in any manner whatsoever or to represent to third parties that it has any right to enter into any binding obligation on the other party's behalf. It is expressly understood, acknowledged and agreed that Supplier's employees designated to perform Services under an applicable Order and their supervisors, and managers and other employees, consultants and subcontractors of Supplier providing the Services will remain under the direction and control of Supplier. All compensation of such employees, consultants and subcontractors of Supplier, including payroll taxes and benefits will be the responsibility of Supplier, and such employees, consultants and subcontractors of Supplier will have no right to any benefits granted to any Harte Hanks employees. Supplier will defend, indemnify and hold harmless Harte Hanks from any claims made against Harte Hanks by Supplier employees, consultants and subcontractors.

VI. COMPANY'S EQUIPMENT

Unless otherwise specifically provided in this Agreement or Order, Supplier shall provide all labor and equipment for performance of this Agreement. Should Supplier actually use any equipment owned, leased or rented by Harte Hanks, Supplier acknowledges that Supplier accepts the equipment "as is, where is," that neither Harte Hanks nor its licensors or lessors have any responsibility for its condition or state of repair and that Supplier shall have risk of loss and damage to it. Supplier agrees not to remove the equipment from Harte Hanks' premises without Harte Hanks' prior written consent and to return it to Harte Hanks upon completion of use, or at such earlier time as Harte Hanks may request, in the same condition as when received by Supplier, reasonable wear and tear excepted. Supplier shall not use Harte Hanks' equipment for any purpose other than in the performance of its obligations to Harte Hanks.

VII. COMPLIANCE WITH LAWS

Supplier and all persons furnished by Supplier shall comply at their own expense with all federal, state, local and foreign laws, ordinances, regulations and codes, including the identification and procurement of required permits, certificates, licenses, insurance, approvals and inspections applicable to the Supplier in performance of this Agreement.

VIII. INDEMNITY

Supplier agrees to indemnify and hold harmless Harte Hanks, its affiliates, and each of their officers, directors, employees, successors and assigns (all hereinafter referred to in this clause as "Indemnified Parties") from and against any proven or alleged third party claims, demands, suits, losses, damages, liabilities, fines, penalties and expenses (including attorney's fees) that in any way arise out of, relate to or result from the provision of Products/ Services by the Supplier, its affiliates, and each of their officers, directors, employees, suppliers, contractors or successors in the performance of this Agreement, including but not limited to claims arising from: (1) injuries or death to persons or damage to property, including theft; (2) failure by Supplier to conform to any applicable laws and regulations relating to the Product/ Services, and/or its confidentiality obligations under this Agreement; (3) grossly negligent or intentional acts or omissions of Supplier; and (4) infringement of any patent, copyright, trademark, trade secret or other intellectual property right resulting from the Supplier's provision of Products/Services, provided however that Supplier shall not have any indemnity obligation to Harte Hanks under this Section to the extent that any infringement or claim thereof is attributable to: (1) the combination, operation or use of Products/Services with equipment or software supplied by Harte Hanks where the Products/Services would not itself be infringing; (2) compliance with designs, specifications, materials, inputs, or instructions provided by Harte Hanks; (3) use of Products/Services in an application or environment for which it was not designed or contemplated under this Agreement; or (4) modifications of a Products/Services by anyone other than Supplier where the unmodified version of the Products/Services would not have been infringing. Harte Hanks agrees to immediately notify Supplier of any written claims or demands against Harte Hanks for which Supplier is responsible under this clause. Lack of immediate notice shall not preclude Supplier's obligations hereunder unless same materially prejudices Supplier's legal rights in such action. Supplier will be entitled to have sole control over the defense and settlement of the claim. In addition, Supplier will not be required to reimburse Harte Hanks for any amount paid or payable by Harte Hanks in settlement of the claim if the settlement was agreed to without the written consent of the Supplier.

Harte Hanks agrees to indemnify and hold harmless the Supplier and their officers, directors, employees, successors and assigns against all third party actions, proceedings, claims, damages, liabilities, settlement sums, charges, losses, costs and expenses (including without limitation, legal costs and expenses and any penalties or other amounts levied, imposed or charged by any regulator or regulatory authority) arising out of (i) any intellectual property infringement associated with the Product/ Service performed by the Supplier's to the extent the basis for the infringement claim is caused by the Supplier's use of any materials or software or intellectual property provided by Harte Hanks to the Supplier for the purpose of performing the Services; (ii) Harte Hanks' breach of its confidentiality obligations under this Agreement; (iii) fraud, gross negligence or willful misconduct of Harte Hanks or Harte Hanks' personnel.

IX. INSURANCE

Supplier shall maintain during the term of this Agreement: (1) Workers' Compensation insurance as prescribed by the law of the state or nation in which the work or services is performed; (2) employer's liability insurance with limits of at least $1,000,000 for each occurrence and in aggregate ; (3) automobile liability insurance if the use of motor vehicles is required, with limits of at least $1,000,000 combined single limit for bodily injury and property damage per occurrence and in aggregate; (4) Commercial General Liability ("CGL") insurance, including Blanket Contractual Liability and Broad Form Property Damage, with limits of at least $1,000,000 combined single limit for bodily injury and property damage per occurrence and in aggregate; and (5) if the furnishing to Harte Hanks (by sale or otherwise) of products, material or construction, installation, maintenance or repair services is involved, CGL insurance endorsed to include products liability and completed operations coverage in the amount of $5,000,000 per occurrence and in aggregate, which shall be maintained for at least one (1) year following the expiration or termination of this Agreement; and (6) Errors and Omissions insurance in the amount of at least $1,000,000 per claim with an annual aggregate of at least $3,000,000 inclusive of legal defense costs. . Supplier and Supplier's subcontractors shall furnish prior to the start of work certificates or adequate proof of the foregoing insurance including, if specifically requested by Harte Hanks, copies of the endorsements and policies. Harte Hanks shall be notified in writing at least thirty (30) days prior to cancellation of or any material change in the policy. Insurance companies providing coverage under this Agreement must be a reputed insurance company in the industry.

X. LIMITATION OF LIABILITY

NEITHER PARTY SHALL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL, PUNITIVE, OR EXEMPLARY DAMAGES, INCLUDING BUT NOT LIMITED TO, DAMAGES FOR LOSS OF PROFITS, REVENUE, GOODWILL, USE, DATA, ELECTRONICALLY TRANSMITTED ORDERS, OR OTHER ECONOMIC ADVANTAGE (EVEN IF IT HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES), HOWEVER CAUSED AND REGARDLESS OF THE THEORY OF LIABILITY, ARISING OUT OF OR RELATED TO ANY DELAY,

OMISSION OR ERROR IN THE TRANSMISSION OR RECEIPT OF ANY DOCUMENTS PURSUANT TO THIS AGREEMENT. EACH PARTY'S TOTAL LIABILITY TO THE OTHER PARTY HEREUNDER IS LIMITED TO THE AMOUNT HARTE HANKS HAS PAID TO THE SUPPLIER IN THE PRECEDING 12 MONTHS FOR THE WORK, SERVICES OR PRODUCTS PROPERLY DELIVERED TO COMPANY UNDER THE SPECIFIC ORDER. THE FOREGOING SHALL NOT SERVE TO LIMIT SUPPLIER'S INDEMNIFICATION OBLIGATIONS OR CONFIDENTIALITY OBLIGATIONS AS SET FORTH IN THIS AGREEMENT.

XI. SUPPLIER'S INFORMATION

If Supplier delivers any third party-owned information to Harte Hanks under or in contemplation of this Agreement, Supplier represents and warrants that it has the right to deliver such third party-owned information.

XII. TITLE TO WORK PRODUCTS

All right, title and interest in and to all tangible and intangible work and work products developed, delivered or produced under this Agreement by or on behalf of Supplier for Harte Hanks, whether comprising or incorporated in specifications, drawings, sketches, models, samples, data, computer programs, reports, documentation or other technical or business information, and all right, title and interest in and to patents, copyrights, trade secrets, trademarks and other intellectual property derived from such work and work products are hereby assigned by Supplier to Harte Hanks and are hereby agreed by Supplier to be transferred to Harte Hanks or otherwise vested therein, effective when first capable of being so assigned, transferred or vested. Supplier shall obligate its employees, subcontractors and others to provide, and shall supply to Harte Hanks at no extra cost, all such assignments, rights and covenants as Harte Hanks deems appropriate to assure and perfect such transfer or other vesting. All work and work products shall be provided to Harte Hanks as required herein or on termination or completion of this Agreement, whichever is earlier, unless Supplier is requested in writing to do otherwise. All such work and work products shall be considered and arranged to be a "work made for hire" to the extent allowed by law. To the extent that the work and work products produced under this Agreement does not qualify as a "works made for hire", or to the extent that Section XII, is declared invalid either in substance or purpose, in whole or in part, Supplier hereby irrevocably transfers, grants, conveys, assigns and relinquishes exclusively to Harte Hanks all of Supplier's right, title and interest (including but not limited to ownership of all patent, copyright and trade secret rights) in said work and work products developed by Supplier under this Agreement, without the necessity of further consideration and Supplier shall have no right, title, or interest of any kind or nature to such work and work products.

The work and work products developed, delivered or produced under this Agreement shall be the original work of Supplier, unless Harte Hanks' Technical Representative has consented in writing to the inclusion of work or work products owned or copyrighted by others (hereafter "included works"). In requesting such consent, Supplier shall notify Harte Hanks of the scope of the rights and permissions Supplier intends to obtain for Harte Hanks with respect to such included works and modify the scope of same as requested by Harte Hanks. Copies of all rights and permissions, clearly identifying the included works to which they apply, shall be supplied to Harte Hanks promptly after their acquisition.

Harte Hanks shall not acquire title hereunder to any intangible work or work products preexisting execution of this Agreement and not developed or produced in anticipation hereof.

Supplier agrees, for itself and its affiliates, not to assert patents and copyrights owned or controlled by Supplier or any parent thereof or subsidiary of either against Harte Hanks, its affiliates, and its or their direct or indirect customers, in connection with any work product or other subject matter directly or indirectly derived from work done hereunder.

Open Source. Supplier represents that unless otherwise agreed between the parties, Supplier shall not introduce any software which falls within the "Open Source Definition" as promulgated by the Open Source Initiative ('Open Source Software'). The Supplier agrees to indemnify Harte Hanks from and against any damages, costs, liabilities, or expenses incurred in connection with any claim brought by a third party against Harte Hanks to the extent such claim arises out of the Supplier's non-compliant and unapproved use of Open Source Software.

In the event Harte Hanks approves uses of Open Source Software in the Products/Services, Harte Hanks shall be solely responsible for compliance of all terms and conditions of the applicable Open Source License. The Supplier does not provide any warranty or representations on the Open Source Software. Harte Hanks agrees to indemnify, defend, and hold harmless the Supplier from and against any damages, costs, liabilities, or expenses incurred in connection with any claim brought by a third party against the Supplier which arises from the third party's proper use of such open source software.

XIII. CONFIDENTIAL INFORMATION/ NON-COMPETE/ NON-HIRE

A Both parties acknowledge that in connection with the provision of Products/Services, each party ("Recipient") will have access to Non-Public Information of the other party ("Discloser"). For purposes of this Agreement, the term "Non-Public Information" means information not available to the general public and concerns Discloser or its customers, and includes, but is not limited to, (a) intangible information expressed in the form of ideas, data, programs, technical, business or other types of intangible information, or (b) documents, prints, tapes, discs, data, financial information, customer information, or other types of tangible information. Recipient agrees to (1) keep all such Non-Public Information confidential and use such Non-Public Information only for the purposes of performing under this Agreement; (2) inform Recipient employees, contractors and agents of their obligations to keep such Non-Public Information confidential and require those employees, contractors and agents to honor such obligations; and (3) promptly surrender or destroy such Non-Public Information, and any copies thereof, free-of-charge, when requested to do so by Discloser . Recipient agrees never to disclose such Non-Public Information which has or will come into the possession or knowledge of Recipient in connection with this Agreement, or the performance hereof, including any information created by Recipient as part of the services, which consists of confidential and proprietary data of Discloser . Supplier acknowledges that Non-Public Information may be transmitted in written, oral, or electronic format.

B. Recipient shall not without Discloser's prior written consent: (a) disclose to any third party the contents and/or the facts of this Agreement; or (b) engage in any advertising, promotion or publicity related to this Agreement; or (c) make public use of Discloser trade name, trademark, service mark, insignia, symbol, logo, or other designation of Discloser or its affiliates.

C. No copies shall be made of any Non-Public Information or any other information supplied by Harte Hanks without the written consent of Discloser and, Recipient shall not make use of any Non-Public Information or any other information received from Discloser and/or its customers for any purpose except that which is expressly contemplated by this Agreement.

D. Recipient will not disclose to Discloser or induce Discloser to use any confidential information or material belonging to others, unless Recipient has obtained prior authorization for such disclosure and use and informs Discloser to that effect in writing.

E. During the term of this Agreement as set forth in Section III A., and for a period of one (1) years after termination or expiration of same, either party will not directly or indirectly, on the party's own behalf or in the service or on behalf of others, in any capacity, hire, solicit, employ or induce or attempt to induce any officer, director, or employee to leave the employ of the other party, nor shall the either party directly or indirectly, solicit or attempt to solicit, the business of any customer or consultant of the other party or use the confidential information of the other party for a party's own benefit or gain. Such conduct shall be considered a wrongful disclosure/ use of confidential information.

F. In the event of wrongful disclosure/ use of Discloser confidential information, monetary damages may be insufficient to protect and compensate Discloser and Discloser shall be entitled to injunctive relief.

G. The obligations contained in this Section XIII shall survive for a period of three (3) years from the date of termination or expiration of this Agreement except that trade secrets and personal data shall remain confidential for perpetuity.

XIV. WARRANTY

Supplier warrants to Harte Hanks that material furnished will be new, and will conform to and perform in accordance with the specifications, requirements and if applicable, drawings and samples, as stated in the Order. These warranties shall continue for the longer of (a) three (3) months after the service, product or material is accepted by Harte Hanks or (b) such other period as may be specified elsewhere in this Agreement or in the Order. Supplier also warrants to Harte Hanks that the services will be performed in a professional and workmanlike manner and in accordance with the specifications required by Harte Hanks. In addition, if material furnished contains one or more manufacturers' warranties, Supplier hereby assigns such warranties to Harte Hanks and its customers. All warranties shall survive inspection, acceptance and payment. Material or services not meeting the warranties will be, at Harte Hanks' option, returned for refund, repaired, replaced or re-performed by Supplier at no cost to Harte Hanks or its customers and with transportation costs and risk of loss and damage in transit borne by Supplier. Repaired and replacement material shall be warranted as set forth above in this clause.

When a required deliverable is delivered electronically, including via the Internet, Supplier warrants that the deliverable will not contain any malicious code, program, or other internal component (e.g., computer virus, computer worm, computer time bomb, or similar component), which could damage, destroy, or alter Harte Hanks' software, firmware or hardware, or which could, in any manner, reveal, damage, destroy, or alter any data or other information accessed through or processed by the report in any manner. Supplier shall immediately advise Harte Hanks, in writing, upon reasonable suspicion or actual knowledge that a deliverable delivered electronically under this Agreement may result in the harm described above. Supplier shall indemnify and hold Harte Hanks harmless from any damage resulting directly from the harm described above.

EXCEPT FOR THE FOREGOING, SUPPLIER EXCLUDES AND DISCLAIMS ALL WARRANTIES, CONDITIONS OR STATEMENTS, WHETHER EXPRESS, IMPLIED OR STATUTORY, INCLUDING, WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTIBILITY, FITNESS FOR A PARTICULAR PURPOSE (UNLESS THE PURPOSE IS EXPRESSLY AGREED IN THE AGREEMENT OR IN THE RELEVANT ORDER), OR THAT PRODUCTS/DELIVERABLES WILL BE ERROR-FREE.

XV. <u>AUDIT</u>

Supplier's records, accounts, processes, and documentation directly related to Harte Hanks' account, and areas related to physical security, logical security, change control and disaster recovery, shall be subject to inspection and audit by Harte Hanks' internal auditors or outside auditors, upon at least ten (10) business days' notice and during Supplier' normal business hours. Such inspection and audit shall be reasonable in scope and duration and that are relevant to this Agreement. In addition, Supplier shall provide to Harte Hanks and such auditors and inspectors as Harte Hanks may designate in writing, space, office furnishings, telephone and facsimile services, utilities and office-related equipment and duplicating services as Harte Hanks and its auditors and inspectors may reasonably require to perform the audits described in this Section. Harte Hanks auditors shall not be given access to: (i) the proprietary information of other Supplier customers; (ii) Supplier locations that are not related to Harte Hanks or the Services; or (iii) Supplier's internal costs. In performing audits, Harte Hanks and their internal and external auditors, inspectors, regulators or other representatives shall comply with Supplier's standard, reasonable physical and information security procedures and shall cause external auditors to execute a confidentiality agreement substantially similar to the agreement. External auditors designated by Harte Hanks shall not be competitors to the Supplier. The frequency of such audits should not be more than once a year, unless good cause exists for such greater frequency.

XVI. <u>FORCE MAJEURE</u>

Neither party shall be held responsible for any delay or failure in performance of any part of this Agreement to the extent such delay or failure is caused by fire, flood, explosion, war, strike, embargo, government requirement, civil or military authority, act of God, or other similar causes beyond its control and without the fault or negligence of the delayed or nonperforming party or its subcontractors ("force majeure conditions"). Notwithstanding the foregoing, Supplier's liability for loss or damage to Harte Hanks' material in Supplier's possession or control shall not be modified by this clause. If any force majeure condition occurs, the party delayed or unable to perform shall give immediate notice to the other party, stating the nature of the force majeure condition and any action being taken to avoid or minimize its effect. The party affected by the other's delay or inability to perform may elect to: (1) suspend this Agreement or an Order for the duration of the force majeure condition, and (i) at its option buy, sell, obtain or furnish elsewhere material or services to be bought, sold, obtained or furnished under this Agreement or an Order (unless such sale or furnishing is prohibited under this Agreement) and deduct from any commitment the quantity bought, sold, obtained or furnished or for which commitments have been made elsewhere and (ii) once the force majeure condition ceases, resume performance under this Agreement or order with an option in the affected party to extend the period of this Agreement or an Order up to the length of time the force majeure condition endured and/or (2) when the delay or nonperformance continues for a period of at least fifteen (15) days, terminate, at no charge, this

Agreement or an Order or the part of it relating to material not already shipped or services not already performed. Unless written notice is given within forty-five (45) days after the affected party is notified of the force majeure condition, option (1) shall be deemed selected.

XVII. <u>MEDIATION</u>

If a dispute arises out of or relates to this Agreement, or its breach, and the parties have not been successful in resolving such dispute through negotiation, the parties agree to attempt to resolve the dispute through mediation by submitting the dispute to a sole mediator selected by the parties or, at any time at the option of a party, to mediation by the American Arbitration Association ("AAA"). Each party shall bear its own expenses and an equal share of the expenses of the mediator and the fees of the AAA. The parties, their representatives, other participants and the mediator shall hold the existence, content and result of the mediation in confidence. If such dispute is not resolved by such mediation, the parties shall have the right to resort to any remedies permitted by law. All defenses based on passage of time shall be tolled pending the termination of the mediation. Nothing in this clause shall be construed to preclude any party from seeking injunctive relief in order to protect its rights pending mediation. A request by a party to a court for such injunctive relief shall not be deemed a waiver of the obligation to mediate.

XVIII. <u>NON-EXCLUSIVE SERVICES</u>

It is expressly understood and agreed that this Agreement neither grants to Supplier an exclusive right or privilege to sell to Harte Hanks any or all material or services of the type described in this Agreement which Harte Hanks may require, nor requires the purchase of any material or services from Supplier by Harte Hanks. It is, therefore, understood that Harte Hanks may contract with other manufacturers and Suppliers for the procurement of comparable material or services.

Supplier agrees that purchases by Harte Hanks under this Agreement shall neither restrict the right of Harte Hanks to cease purchasing hereunder nor require Harte Hanks to continue any level of such purchases.

XIX. <u>ASSIGNMENT AND SUBCONTRACTING</u>

Supplier shall not assign any right or interest under this Agreement (excepting monies due or to become due) or delegate or subcontract any work or other obligation to be performed or owed under this Agreement without the prior written consent of Harte Hanks. Any assignment, delegation or subcontracting without such consent shall be void. Any assignment of monies shall be void if (1) Supplier shall not have given Harte Hanks at least thirty (30) days prior written notice of such assignment or (2) such assignment imposes upon Harte Hanks obligations to the assignee in addition to the payment of such monies, or precludes Harte Hanks from dealing solely and directly with Supplier in all matters pertaining to this Agreement including amendments or settlements of charges. All work performed or product(s) delivered by Supplier's subcontractor(s) at any tier shall be deemed work performed or product(s) delivered by Supplier.

XX. <u>ASSIGNMENT BY COMPANY</u>

Harte Hanks shall have the right upon written notice to Supplier to assign this Agreement and to assign its rights and delegate its duties under this Agreement either in whole or in part (an “Assignment”), at any time upon written notice to Supplier and without Supplier’s consent, to (i) any present or future affiliate of Harte Hanks (including any subsidiary or affiliated entity thereof); (ii) any unaffiliated new entities that may be formed by Harte Hanks pursuant to a corporate reorganization, including any subsidiary or affiliated entity thereof.

XXI. <u>SURVIVAL OF OBLIGATIONS</u>

It is agreed that certain obligations of the parties under this Agreement, which, by their nature would continue beyond the termination, cancellation, or expiration of this Agreement, shall survive termination, cancellation or expiration of this Agreement. Such obligations include, by way of illustration only and not limitation, those contained in the AUDIT, COMPLIANCE WITH LAWS, INDEMNITY, TITLE TO WORK PRODUCTS, INSURANCE, CONFIDENTIAL INFORMATION, LIMITATION OF LIABILTY, IDENTIFICATION and WARRANTY clauses.

XXII. <u>ENTIRE AGREEMENT</u>

This Agreement shall incorporate the typed or written provisions on Harte Hanks' Order(s) issued pursuant to this Agreement and shall constitute the entire agreement between the parties with respect to the subject matter of this Agreement and the Order(s) and shall not be changed, modified or rescinded, except by a writing signed by Supplier and Harte Hanks. Pre-printed provisions on the Harte Hanks' purchase orders (except as specified otherwise in this Agreement) and all provisions on Supplier's forms shall be deemed deleted. Estimates or forecasts furnished by Harte Hanks shall not constitute commitments. The provisions of this Agreement supersede all contemporaneous oral agreements and all prior oral and written quotations, communications, agreements and understandings of the parties with respect to the subject matter of this Agreement. The term "work" as used in this Agreement may also be referred to as "Products/Services".

XXIII. <u>GOVERNING LAW</u>

This Agreement shall be governed by the laws of the State of Delaware, excluding application of its conflict of laws provisions. The parties agree that the provisions of the Delaware Uniform Commercial Code apply to this Agreement and all transactions under it, including agreements and transactions relating to the furnishing of services, the lease or rental of equipment or material, and the license of software. Supplier agrees to submit to the jurisdiction of any court wherein an action is commenced against Harte Hanks based on a claim for which Supplier has agreed to indemnify Harte Hanks under this Agreement.

XXIV. <u>IDENTIFICATION/PUBLICITY</u>

Supplier shall not without Harte Hanks' prior written consent: (a) disclose to any third party the contents and/or the facts of this Agreement; or (b) engage in any advertising, promotion or publicity related to this Agreement; or (c) make public use of Harte Hanks', trade name, trademark, service mark, insignia, symbol, logo, or other designation of Harte Hanks or its affiliates.

XXV. NOTICES

Any notice or demand which under the terms of this Agreement or under any statute must or may be given or made by Supplier or Harte Hanks shall be in writing and shall be given or made by certified or registered mail addressed to the respective parties as follows:

To Harte Hanks:
Harte Hanks
1700 District Avenue
Suite 300
Burlington, MA 01803
Attention: VP of Contracts Administration

Business Notices

Harte-Hanks Direct, Inc.
3800 Horizon Blvd.
Suite 500
Trevose, PA 19053

To Supplier: Wipro, LLC
2 Tower Center Boulevard
Suite 220
East Brunswick, NJ 08816
Attention: Head of Legal, Americas
Email: generalcounsel.office@wipro.com

The above addresses may be changed at any time by giving prior written notice as above provided.

XXVI. RELEASES VOID

Neither party shall require (i) waivers or releases of any personal rights or (ii) execution of documents which conflict with the terms of this Agreement, from employees, representatives or customers of the other in connection with visits to its premises and both parties agree that no such releases, waivers or documents shall be pleaded by them or third persons in any action or proceeding.

XXVII. SAVINGS CLAUSE/NO WAIVER

Should any provision of this Agreement be held by a tribunal of competent jurisdiction to be contrary to law, the remaining provisions shall remain in full force and effect. In the event of a holding of invalidity so fundamental as to prevent the accomplishment of the purpose of the Agreement, the parties shall promptly commence good faith negotiations to remedy such invalidity. No whole or partial waiver of any breach of this Agreement shall be held to be a waiver of any other or any subsequent breach. The whole or partial failure of either party to enforce at any time the provisions of this Agreement shall in no way be construed to be a waiver of such provisions nor in any way affect the validity of this Agreement or any part of it or the right of either party to enforce subsequently each and every provision.

XXVIII. INSPECTION

Supplier will provide safe access to the work performed under the Agreement at all times for Harte Hanks' inspection upon ten (10) business days' prior written notice.

XXIX. RELATIONSHIP/ BACKGROUND SCREENING

Supplier shall exercise full control and direction over the employees of Supplier performing the work covered by this Agreement. Any changes in personnel that may be reasonably requested by Harte Hanks through its authorized representative shall be made as soon as reasonably possible.

Neither Supplier nor its employees or agents shall be deemed to be Harte Hanks' employees or agents. It is understood that Supplier is an independent contractor for all purposes and at all times. Supplier is solely responsible for withholding and payment of all applicable federal, state and local income and other payroll taxes with respect to its employees or third party consultants, contractors or suppliers, including contributions from them as required by law.

The Supplier agrees to perform the background screening as set forth in Exhibit A hereto.

XXX. DATA SECURITY/ INCIDENT REPORTING

For purposes of this Agreement and all Orders, Sensitive Personal Information ("SPI Data") shall mean any of the following, whether contained in an electronic or physical format: (i) personal information (such as name, telephone number or address) in combination with any health-related data or biometric data, including illnesses, conditions, treatments, procedures, DNA or other personally identifiable health-related or biometric data, (ii) federal, state, local or foreign government issued identification numbers, such as social security numbers, driver's license numbers or state ID numbers, (iii) credit or debit card numbers, (iv) personal checking, savings, banking, brokerage, investment, retirement or other financial account numbers; and (v) any other agreed categories of information or data that are deemed sensitive personal information and which may be subject to data security, use, handling, reporting or disposal restrictions by applicable privacy, data security and/or breach notification requirements. Each party shall transmit, transfer, and deliver all data that contain (a) SPI Data via an encrypted or similarly secure transport methodology and in an encrypted format to be mutually agreed upon by the parties; and (b) all personal identifiable information ("PII Data") other than SPI Data (such as solely name, telephone number, or e-mail address not in combination with any SPI Data) in an encrypted format to be mutually agreed upon by the parties. If the electronic data is to be shared back and forth, each party shall ensure, at its sole expense that its systems are able to receive SPI Data and PII Data from the other party in the mutually agreed encrypted format. Supplier shall not transmit any SPI Data and/or PII Data that is not strictly required for the performance of the Services, nor shall a party transmit any SPI Data or PII Data in physical, hard-copy format using a carrier that does not provide tracking capabilities and the transmitting party shall bear sole responsibility for any liability arising from the unnecessary SPI Data and/or PII Data provided to the other. For example, if Harte Hanks is performing only name and address processing, social security information shall not be transferred to Harte Hanks. If a party is provided access to the other party's electronic systems, such party will secure access to any passwords provided by the other party to ensure that only authorized users of such party have access to the other party's electronic systems. Each party will follow the other party's written policies and rules with regard to its electronic systems for which it is made aware. Each party shall promptly notify the other party of any changes in the status of its authorized users (e.g. termination of employment or change of access level). All authorized users must be named users (e.g. no generic passwords or shared accounts). Supplier will ensure that only those of its personnel who are authorized to access Harte Hanks systems will do so and only in a manner that is consistent with Supplier's permitted use of such Harte Hanks systems in connection with the Services. Supplier will notify Harte Hanks promptly upon becoming aware of any unauthorized access, disclosure or use of such passwords or of Harte Hanks systems. The parties shall work together in order to mitigate, to the extent practicable, and remediate any harmful effect resulting from such unauthorized access, disclosure or use of such passwords or systems.

Supplier shall further comply with the incident reporting requirements set forth in Exhibit B attached hereto.

XXXI. SEVERABILITY

If any of the provisions of this Agreement shall be invalid or unenforceable, such invalidity or unenforceability shall not invalidate or render unenforceable this entire Agreement, but rather this entire Agreement shall be construed as if not containing the particular invalid or unenforceable provision or provisions, and the rights and obligations of the parties shall be construed and enforced accordingly.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, which is effective as of the day and year first above written.

ACCEPTED AND AGREED BY THE PARTIES AUTHORIZED REPRESENTATIVES:

FOR:	Wipro, LLC	FOR:	Harte-Hanks Direct, Inc.
By	/s/ Ashish Chawla	By	/s/ Robert Lord
Title	Ashish Chawla, CFO	Title	Outsource Engagement Executive
Date	7/25/2016	Date	July 22, 2016

Work Order Number ________

Contract Number ____________

This Work Order Number ________ (“Order”) dated the _______ day of _______, 20__ (“Effective Date”) is made by and between ________ (“Supplier” and Harte-Hanks ____________. (“Harte Hanks”) and is issued pursuant to and incorporates by reference the terms and conditions of the Supplier Supply and Services Agreement dated ________, 20__ (“Agreement”) between Supplier and Harte Hanks.

Products/Services and Pricing

NOTE IF SERVICE LEVELS ARE REQUIRED AND NEED TO BE DEVELOPED FOR THIS RELATIONSHIP

The term of this Order shall commence upon the Effective Date of the Order and continue thereafter for a period of ___ (___) year. Thereafter, this Order shall renew automatically for additional one-year periods unless either party terminates this Order upon written notice to the other party thirty (30) days prior to the end of the initial term or any one-year renewal term.

This Order incorporates and is subject to all of the terms and provisions of the Agreement, and is valid only if signed by authorized representatives of both parties. Each party represents that the individual signing on its behalf has read this Order, understands it, and has full authority to bind such party.

By:		By:	
Name:		Name:	
Title:		Title:	
Date:		Date:	

Exhibit A
STANDARD TERMS AND CONDITIONS FOR
UNITED STATES BACKGROUND SCREENING

.

Supplier shall conduct, at its own expense, a background screening ("**Background Screening**") for all personnel provided by the Supplier, whether employed by the Supplier or any subcontractor of the Supplier (collectively, "**Workers**"), who perform services for Harte Hanks and/or its Affiliates ("**Harte Hanks**") on Harte Hanks premises or to whom access to the following will be made available, whether on premises of Harte Hanks, Supplier's or Supplier's subcontractors:

Harte Hanks confidential information;
personal health information;
personal financial information;
identity related information including, but not limited to, Harte Hanks or employee names accompanied by Social Security number;
other non-public personal information, disclosure of which is regulated by federal or state laws, rules or regulations or by a self-regulating organization
Information, systems, and/or application identified under Harte Hanks compliance program
Ability to administer or control access privileges to systems and/or applications that directly or indirectly are used in connection with providing services to Harte Hanks

The Supplier represents and covenants to Harte Hanks that each Worker, prior to performing services hereunder and after securing appropriate written authorization from such Worker, will have satisfactorily passed a Background Screening set forth below by a security agency reasonably acceptable to Harte Hanks (by way of example and not limitation, (i) Sterling, (ii) Kroll, or (iii) Choicepoint).

If the Supplier has conducted and the Worker has passed a background screening equivalent to the Background Screening required herein, and the Worker has not had a break in service since the background screening was performed, no additional background screening is required.

The Background Screening must include a review of the following in the sequence shown and covering the past 7 years or the longest period for which records exist in such state/county (the "**Look-Back Period**"), to achieve acceptable results:

Personal Data Verification, including a complete social security number trace for which historical addresses of residence, employment and education covering the Look-Back Period can be confirmed

Federal and State/County Criminal Records Check (Current and former state/county of residence, employment and education during the Look-Back Period as shown in address verification)

OFAC List Verification

Office of Thrift Supervision (OTS) check

Securities, Financial Services Industry, and other Federal and State Regulatory Actions – applicable only to Services performed for Harte Hanks business operations regulated by securities, banking or insurance authorities

Such other reasonable screening of a Worker that a Harte Hanks client may require, by way of contractual obligation or reasonable request

Any Worker who has failed to disclose any prior criminal convictions and/or found to have provided any false or inaccurate information pertaining to their application for employment with the Supplier when compared with the background screening results as set forth in this exhibit, shall not perform and/or be immediately removed from providing, any services either directly or indirectly for Harte Hanks.

If the Supplier becomes aware of a Worker's arrest during or within 5 years after performing services for Harte Hanks, then the Supplier will promptly notify Harte Hanks and a mutually acceptable decision will be promptly made regarding that individual's continuing service on Harte Hanks matters.

The Supplier will ensure that all sub-contractors it utilizes to perform services for Harte Hanks performs background screenings consistent with these terms and conditions for any personnel they provide.

If a Worker(s), regardless of citizenship or nationality, including U.S. citizenship, has resided outside of the U.S. for a period of 1 year or greater over the past 10 years, then, at the Supplier's sole cost, an International background screening of such Worker(s) will be required, separately or in addition to any applicable U.S. background screening. In performing International Background Screening, the Supplier must use a Harte Hanks approved Supplier and include all required databases and other information as deemed necessary by Harte Hanks and as otherwise mutually agreed by Harte Hanks and the Supplier.

Exhibit B
Security & Privacy Requirements

1. Supplier shall develop, implement and maintain a comprehensive written security program that includes administrative, technical and physical safeguards that are appropriate to the nature and scope of its activities performed for Harte Hanks and the sensitivity of Harte Hanks's "**Confidential Information**" as defined in the Agreement. Such safeguards shall be reasonably designed to:
    a. Ensure the security and confidentiality of the Confidential Information;
    b. Protect against any anticipated threats or hazards to the security or integrity of such information; and
    c. Protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to Harte Hanks or any of its subsidiaries, business partners, or employees of Harte Hanks.
2. As part of its security program, Supplier shall:
    a. Assign overall responsibility and accountability for the security of the Supplier organization to a top-level executive.
    b. Designate one or more employees to coordinate its security program across the Supplier organization.
    c. Develop, document and maintain a comprehensive written security policy based on industry-accepted standards and practices, and communicate it to all Supplier personnel.
    d. Develop, document and maintain:
        i. Awareness, education and/or training to ensure that employees know and understand their individual security responsibilities and how to accomplish them, as well as any consequences for employee violations of their responsibilities;
        ii. Procedures to identify and interpret the security implications of relevant laws and regulations and make appropriate modifications to the security program;
        iii. Procedures and controls to authenticate and limit access to Confidential Information, whether in electronic or physical form, to authorized individuals and to immediately discontinue access by terminated or otherwise former employees;
        iv. Procedures and controls to restrict access at physical locations containing Confidential Information such as buildings, computer facilities and records storage facilities;
        v. Procedures and controls for the secure handling, transfer, destruction and disposal of Confidential Information, whether in electronic or physical form;
        vi. Procedures and controls for the secure installation, configuration, operation and maintenance of information systems (e.g., workstations, servers, networks and applications), including procedures for change management, patch management and vulnerability management, such as up-to-date system security software, security patches, virus definitions and firewalls;
        vii. Procedures and controls to protect against destruction, loss or damage of Confidential Information due to human error, potential environmental hazards such as fire and water damage, or technological failures; and
        viii. Procedures and controls for detecting, preventing and responding to attacks, intrusions or other systems failures, including actions to be taken in the event of suspected or detected unauthorized access to Confidential Information.
    e. Identify reasonably foreseeable internal and external risks to the confidentiality, integrity and availability of Confidential Information that could result in the unauthorized disclosure, misuse, alteration, destruction or other compromise of such information, and design and implement safeguards to control these risks including, but not limited to:

i. Restricting access to Confidential Information to those Supplier personnel who have a business need to access it in order to provide services under the Agreement;

ii. Implementing secure user authentication protocols and secure access control measures;

iii. Encrypting, using industry-accepted algorithms and key lengths, all Personal Information that is stored on computer systems or media not permanently housed in a secured data center (including desktop and laptop computers, portable storage devices and removable media); and

iv. Encrypting, using industry-accepted algorithms and key lengths, all Personal Information transmitted over public networks (including, but not limited to, the Internet), wireless networks or cellular networks.

f. Oversee its service providers, by:

i. Taking reasonable steps to select and retain service providers that are capable of maintaining appropriate safeguards for Confidential Information;

ii. Requiring its service providers by contract to implement and maintain such safeguards; and

iii. Where indicated by a risk assessment, monitor its service providers to confirm that they have satisfied their obligations to protect Confidential Information.

g. Monitor, through the collection of metrics and/or the performance of security audits and/or reviews, the overall state of security within its organization, and report that information periodically to executive management.

h. Notwithstanding any “force majeure” provisions of the Agreement, implement, maintain and test, at least annually, documented plans for responding to a disaster, emergency situation or other unforeseen circumstances, including processes and procedures for resuming business operations and the provision of services under the terms of the Agreement.

i. Evaluate, adjust and upgrade its security program in light of the results of the monitoring required by paragraph (g) above, any material changes to its operations or business arrangements, or any other circumstances that it knows or has reason to know may have a material impact on its security program.

3. Supplier shall perform, for personnel with access to Harte Hanks confidential information or providing services under the Agreement, identity verification, reference checks and criminal background checks in accordance with the requirements of this Agreement.

4. Supplier will promptly, but in no event more than 1 business day of becoming aware, report to Harte Hanks in writing, and any other party as required by law, but only after consulting with Harte Hanks, any unauthorized disclosure of Personal Information (collectively including SPI as defined in the Agreement), or any breach or suspected breach of security of any Supplier facility or system where such Personal Information is maintained if such Personal Information was or is reasonably believed to have been acquired by, or exposed to, an unauthorized person. Supplier shall, at no additional cost to Harte Hanks, reasonably cooperate with Harte Hanks to comply with laws and regulations relating to unauthorized use or disclosure of Personal Information and mitigate the losses that may be suffered as a result thereof, including, but not limited to making appropriate notifications to affected individuals, or providing, as approved and directed by Harte Hanks, ongoing credit or other monitoring to affected individuals that may be reasonably required by Harte Hanks, and consistent with industry best practices as a result of a security breach. If such security breach is due to the fault or negligence of Supplier and not as a result of the acts or omissions, fault or negligence of Harte Hanks, all such efforts of Supplier will be at no additional cost to Harte Hanks. In the event of a security incident involving the services provided under the Agreement, Supplier shall, at Harte Hanks’s request, make complete, correct and unredacted copies of all available system and network event log files from the time surrounding the incident to non-rewritable media and shall store such media in a secure location until Harte Hanks approves its disposal. At Harte Hanks’s further request, Supplier shall provide Harte Hanks with the data contained in these saved log files; this data may be redacted by Supplier to remove information that does not pertain to Harte Hanks and/or the services provided under the Agreement, provided that such redaction does not compromise the stored copies of the log

files. The information provided by Supplier shall be subject to the confidentiality/non-disclosure terms of the Agreement.

5. For any Confidential Information subject to this Agreement that Supplier does not or cannot return, Supplier shall permanently destroy by shredding or otherwise destroying all paper or other hard copy media on which it is recorded, and/or wiping it from any hard drive, tape, diskette, compact disk or other electronic medium on which it has been stored using utilities or processes which render the information unrecoverable, and/or by otherwise destroying the medium on which the Personal Information is stored so that the Personal Information is not recoverable.

6. Supplier shall permit Harte Hanks to perform (or contract to have performed), at Harte Hanks's request and expense, one (1) security assessment per year. Such assessment will examine the environment(s) used to provide services under the Agreement and may include, but is not limited to, the review of policies, processes and procedures, interviews with key information security personnel, on-site assessment of physical security arrangements, vulnerability scanning of applications, systems, and networks, and penetration testing on any systems that are dedicated exclusively to processing Harte Hanks data. The assessment will be conducted at a time mutually agreed to by Supplier and Harte Hanks, and will be restricted in scope to cover only those portions of Supplier's environment involved in providing services under the Agreement. Harte Hanks shall provide a copy of the results of the assessment to Supplier within ten (10) business days of receipt. Supplier shall cooperate with Harte Hanks to determine a plan for correction of any deficiencies and Supplier shall proceed promptly to correct any deficiencies. In the event material deficiencies are found, Harte Hanks may perform a subsequent security assessment to confirm compliance with the security requirements herein.

7. Supplier is aware that various laws and regulations require Harte Hanks to monitor, on a regular basis, the information security and risk management arrangements of its third-party Suppliers. Upon Harte Hanks's request and at no additional charge to Harte Hanks, Supplier shall provide Harte Hanks with information about the status of its information security and risk management arrangements as they relate to the services provided under the Agreement. Such information will be requested no more than once per year (unless deficiencies are reported or disclosed as a result of the security assessment provided for above), and will be collected through the use of one or more detailed questionnaires to be completed by Supplier or by other mutually agreed upon means. Supplier shall also make available to Harte Hanks, upon request, a copy of Supplier's comprehensive written security program as described in paragraphs 1 and 2 above.

The information provided by Supplier will be for Harte Hanks's internal use only and subject to the confidentiality/non-disclosure terms of the Agreement, provided however that Harte Hanks may disclose such information to regulators having jurisdiction over its operations, upon such regulators' request. Supplier shall cooperate with Harte Hanks and any of Harte Hanks's regulators in connection with regulators' requirements.

Attachment 1 - Wipro Rate Card

This Attachment 1 is made pursuant to the Supplier Supply and Services Agreement dated the 22nd day of July, 2016 ("Agreement") is incorporated therein as an integral part of the Agreement.

The table below is intended to illustrate generally available Wipro resources by Job Title, Skill Requirements, General Responsibilities, Rate Range and Unit of Measure.

Each Order to the Agreement will set forth a description of the services engagement, the various Job Title(s) of the necessary resources assigned to perform the required services and the agreed upon rate for each such resource assigned. It is understood that when establishing fees for each Order the pricing set forth in the table below shall be leveraged. Notwithstanding the foregoing, the parties may agree on different or alternate pricing on a per Order basis, to take into account the complexities of the engagement, which may include without limitation: reduced time schedules, number of resources and/or specific mix of resources required, and/or whether the engagement is based on a fixed fee or volume commitments. The rates set forth in each Order (which may include blended rates) shall control over any conflict with the rates set forth in this Attachment 1, but only with respect to that Order.

Job Title	Skill Requirements	General Responsibilities	Rate Range	Unit of Measure Per (Hour/Daily/ Monthly)
Account Director	N/A	N/A	N/A	N/A
Account Manager	Account Delivery Head (onsite)	Onsite Account Delivery Management and governance	$90 - $100 Onsite	Hourly
Account Supervisor	Program Manager (onsite)	Onsite Program Management and Delivery	$80- $90 Onsite	Hourly
Application Developer	Web or client application developer (onsite and offshore)	Development of design (for major enhancements only) and unit test plan. Develop the objects as per the specifications. Unit testing of the developed components. Provide necessary documentations for the release. Support the testing phase as required	$65 - $68 Onsite $20 -$25 Offshore	Hourly
Application Lead	Web or client application lead (onsite)	Develops to specifications and maintains application code in accordance with the current SDLC methodologies and practices. Prepares required documentation for the portion of work assigned, with review. Consults with Quality Assurance and business analysts in the development and execution of test plans. Leads the respective application towers and co-ordinates with the team for completing the deliverables. Reporting to Harte Hanks for corresponding application towers.	$70 - $75 Onsite	Hourly
Application Program Manager	Program Manager (onsite)	Responsible for managing the Application Portfolios. Participate in the Governance meetings	$80 - $90 Onsite	Hourly

Job Title	Skill Requirements	General Responsibilities	Rate Range	Unit of Measure Per (Hour/Daily/ Monthly)
Application Support Engineer	Support Engineer (onsite and offshore)	Monitor and assume service request from ticketing tool. Analyze service requests. Perform Bug fixes. Develop and unit test minor enhancements. Perform RCA for critical issues. Problem management for recurring jobs	$70 - $75 Onsite $21 - $25 Offshore	Hourly
Application Tester	Quality Engineer (onsite and offshore)	Development of the test plan. Functional, regression and SIT test case creation and updating. Execution of the test and reporting	$70 - $75 Onsite $19 - $23 Offshore	Hourly
Architech	Enterprise Architect / Process Consultant (onsite)	Overall responsibility for the rollout success. Responsible for rollout planning and progress reporting. Liaison with HH Managers & SMEs for rollout planning. Keep status check on different rollout tracks. Ensure rollout deliverables are signed off by HH/WIPRO after each phase. Assisting project team with functional knowledge at every stage of the project. Assist for investigating cross module issues as required. Complete functional assessment. Responsible for analysis of change/enhancement requirements, design / functional specifications and estimation. Participate in the weekly and monthly review meetings and status reporting in their business areas	$180 - $140 Onsite	Hourly
Campaign Lead	A senior campaign management lead with over 5 years of experience in overseeing delivery and managing a large team with diverse skillsets. Responsible for meeting team targets/KRAs/metrics. Responsible for following the tools and methods of the process. Process management, Consulting, client communication, escalation management skills. Exposure to auditing of accounts, quality initiatives, risk and control initiatives, as per organization requirements	Campaign Lead	$25 - $3 Offshore	Hourly
Client Service Manager	N/A	N/A	N/A	N/A
Data Architect	Data Architect (Onsite and offshore)	Develop production process, testing. Design logical and physical data schema.	$40 - $45 Offshore $105-$140 Onsite	Hourly

Job Title	Skill Requirements	General Responsibilities	Rate Range	Unit of Measure Per (Hour/Daily/ Monthly)
Helpdesk Agent	Helpdesk Agent	Helpdesk Agent	$18 - $21 Offshore	Hourly
Enterprise Architect	Enterprise Architect	Develop and mature EA Capability. Solution Architecture & Presales support. Develop/maintain current business architecture. Identify the common feature list and create a library of reusable components. Understands the systems, tools and processes	$180 - $140 Onsite	Hourly
Executive Sponsor	N/A	Overall ownership of project. Communicates and endorses project to key business owners	$ - $	N/A
Lead	Technical Lead	Will work on break-fixes and enhancements as assigned. Complete the code change/development as per the agreed schedule. Fix the breaks as per the SLAs. Timely update of the call tracking system. Submit the developed code to the functional consultant for testing. Support user acceptance testing as required. Participate in the weekly and monthly review meetings and status reporting in their business areas. Adhere to the agreed service management processes	$70 - $75 Onsite $21 - $25 Offshore	Hourly
Senior Campaign Manager	Graduate with overall 8 years of experience in managing medium and large campaign management engagements.	Accountable for managing service delivery. Provides a focus for SLA management and customer satisfaction. Ensure the information systems and the review structure for SLAs are in place and effectively used. Support the change control process by assessing the impact on service delivery of a proposed change. Drives and motivates Team Leads and Supervisors to work towards convergence of SLAs, processes and reporting	$29 - $25 Offshore	Hourly
Software Engineer	Software Engineer (offshore)	Develop initial and production process for automated data flow, upstream and downstream from signal hub	$23 - $25 Offshore	Hourly
Support Specialist	Support Engineer (offshore)	Support and operations	$21 - $23 Offshore	Hourly

Job Title	Skill Requirements	General Responsibilities	Rate Range	Unit of Measure Per (Hour/Daily/ Monthly)
Project Manager	Project Manager (onsite and offshore)	Plan and assign tasks to the team, manage schedule and efforts. Ensure that deliverables are reviewed and tested. Manage the overall support plan. Responsible for Demand intake, planning and forecasting for the Wipro team Assist in strategic planning with stakeholders to ensure alignment of desired success criteria and project delivery. Establish weekly project management meeting. Cross function team coordination. Resolution of resourcing issues.	$75 - $90 Onsite $30 - $35 Offshore	Hourly
HTML Developer	HTML developer	Development of HTML and CSS	$18 - $25 Offshore	Hourly
IT Delivery Manager	IT Delivery Manager	Ensures timely setup of Signal Hub environment for project teams to execute activities outlined in the approach	$35 - $38	Hourly
Solution Architect	Aseasoned digital campaign management architect with over 4 years of experience in defining campaign solutions and strategies. In-depth knowledge of digital campaign. Proven expertise in building campaign using Exact target, Eloqua, UNICA, Marketo. Good project and client management skills exceptional communication skills. Ability to lead a team of analysts and campaign management consultants. Interaction with vendors, customers, 3rd parties & handling queries. Good Communication skills and handle queries and exceptions	Solution Architect	$35 - $45 Offshore $120 - $150 Onsite	Hourly

Job Title	Skill Requirements	General Responsibilities	Rate Range	Unit of Measure Per (Hour/Daily/ Monthly)
Support Specialist	Support Engineer	Perform first level issue triage and transfer it to other levels as necessary. Receive calls & emails of Business & IT users and provide the first level of response/ acknowledgement. Resolves all support issues that are raised by Users. Maintenance activities- schedule server restart, log backups etc. Daily health checks- disc space monitoring, log monitoring, and publishing queues Resolution of the issues related to workflows, data integrity, etc. Defining new access rules, roles, groups, etc. System monitoring and preventive maintenance tasks Create and maintain SOPs License Management	$21 - $23 Offshore	Hourly
Junior Campaign/Technical Developer	Graduate with 2-3 years of experience in digital campaign management and marketing automation. Working knowledge of campaign configuration using tools like Marketo, Eloqua, Exact target. Should have technical skills like HTML, CSS and .NET. Knowledge of MS Office package. Good Communication skills and handle queries and exceptions. Should be able to play the role of SME and/ or individual contributor	Jr. Campaign Developer	$18 - $22 Offshore	Hourly
Senior Campaign/Technical Developer	Graduate with 3-4 years of experience in digital campaign management. Working knowledge of digital campaign management tool like Marketo, Eloqua Exactarget, UNICA. Should have technical skills like HTML, CSS and .NET. Good project and client management skills. Knowledge of MS Office package. Digital campaign management knowledge is mandatory. Ability to lead the teams. Analytical, presentation skills	Sr. Campaign Developer	$18 - $25	Hourly

Subsidiaries of Harte Hanks, Inc.
As of December 31, 2017

Name of Entity	Jurisdiction of Organization	% Owned
3Q Digital, Inc.	Delaware	100%
Harte-Hanks Belgium N.V.	Belgium	100%(1)
Harte-Hanks Data Services LLC	Maryland	100%
Harte-Hanks Direct, Inc.	New York	100%(2)
Harte-Hanks Direct Marketing/Baltimore, Inc.	Maryland	100%
Harte-Hanks Direct Marketing/Cincinnati, Inc.	Ohio	100%
Harte-Hanks Direct Marketing/Dallas, Inc.	Delaware	100%
Harte-Hanks Direct Marketing/Fullerton, Inc.	California	100%
Harte-Hanks Direct Marketing/Jacksonville, LLC	Delaware	100%(4)
Harte-Hanks Direct Marketing/Kansas City, LLC	Delaware	100%(3)
Harte-Hanks do Brazil Consultoria e Servicos Ltda.	Brazil	100%
Harte Hanks Europe B.V.	Netherlands	100%
Harte-Hanks Florida, Inc.	Delaware	100%
Harte-Hanks GmbH	Germany	100%(6)
Harte Hanks Logistics, LLC	Florida	100%(4)
Harte-Hanks Market Intelligence Espana LLC	Colorado	100%
Harte-Hanks Philippines, Inc.	Philippines	100%
Harte-Hanks Print, Inc.	New Jersey	100%
Harte-Hanks Response Management/Austin, Inc.	Delaware	100%
Harte-Hanks Response Management/Boston, Inc.	Massachusetts	100%
Harte-Hanks Shoppers, Inc.	California	100%
Harte-Hanks SRL	Romania	100%(5)
Harte-Hanks Strategic Marketing, Inc.	Delaware	100%
Harte-Hanks STS, Inc.	Delaware	100%
Harte Hanks Tranquility Limited	England & Wales	100%
Harte Hanks UK Limited	United Kingdom	100%
HHMIX SAS	France	100%(6)
NSO, Inc.	Ohio	100%
Sales Support Services, Inc.	New Jersey	100%
Southern Comprint Co.	California	100%

(1) 99.84% Owned by Harte Hanks, Inc.
0.16% Owned by Harte-Hanks Direct, Inc.

(2) Owned by Harte-Hanks Print, Inc.

(3) Owned by Sales Support Services, Inc.

(4) Owned by Harte-Hanks Florida, Inc.

(5) Owned by Harte Hanks UK Limited

(6) Owned by Harte Hanks Europe B.V.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 033-54303, 333-03045, 333-30995, 333-63105, 333-41370, 333-90022, 333-127993, 333-159151, 333-189162 and 333-189781 on Form S-8 of our report dated March 15, 2018, relating to the consolidated financial statements of Harte Hanks, Inc. and subsidiaries (the “Company”) and of our report dated March 15, 2018, relating to internal control over financial reporting (which report expresses an adverse opinion on the effectiveness of the Company’s internal control over financial reporting because of material weaknesses), appearing in this Annual Report on Form 10-K of Harte Hanks Inc. for the year ended December 31, 2017.

/s/ DELOITTE & TOUCHE LLP

San Antonio, Texas
March 15, 2018

Consent of Independent Registered Public Accounting Firm

The Board of Directors

Harte Hanks, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 033-54303, 333-03045, 333-30995, 333-63105, 333-41370, 333-90022, 333-127993, 333-159151, 333-189162, and 333-189781) on Form S-8 of Harte Hanks, Inc. and subsidiaries (the Company) of our report dated March 14, 2016, except for the restatement of discontinued operations in the consolidated balance sheet, statements of comprehensive income (loss), statements of cash flows and Notes A, D, E, H, K, and N, as to which the date is June 16, 2017, which report appears in the December 31, 2017 annual report on Form 10-K of Harte Hanks, Inc.

/s/ KPMG LLP

San Antonio, Texas
March 15, 2018

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Karen A. Puckett, President and Chief Executive Officer of Harte Hanks, Inc. (the "Company"), certify that:

1. I have reviewed this annual report on Form 10-K of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 15, 2018	/s/ Karen A. Puckett
Date	Karen A. Puckett President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jon C. Biro, Executive Vice President and Chief Financial Officer of Harte Hanks, Inc. (the “Company”), certify that:

1. I have reviewed this annual report on Form 10-K of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s fourth fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

March 15, 2018	/s/ Jon C. Biro
Date	Jon C. Biro Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Karen A. Puckett, President and Chief Executive Officer of Harte Hanks, Inc. (the “Company”), hereby certify that the accompanying report on Form 10-K for the year ended December 31, 2017 and filed with the Securities and Exchange Commission on the date hereof pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the “Report”) by the Company fully complies with the requirements of those sections.

I further certify that, based on my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 15, 2018	/s/ Karen A. Puckett
Date	Karen A. Puckett
	President and Chief Executive Officer

Note: This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jon C. Biro, Executive Vice President and Chief Financial Officer of Harte Hanks, Inc. (the "Company"), hereby certify that the accompanying report on Form 10-K for the year ended December 31, 2017 and filed with the Securities and Exchange Commission on the date hereof pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Report") by the Company fully complies with the requirements of those sections.

I further certify that, based on my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 15, 2018	/s/ Jon C. Biro
Date	Jon C. Biro
	Executive Vice President and Chief Financial Officer

Note: This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.