

**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, 2019**

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**

(State or other jurisdiction of  
incorporation or organization)

**74-1677284**

(I.R.S. Employer  
Identification Number)

**2800 Wells Branch Parkway, Austin, Texas 78728**  
(Address of principal executive offices, including zip code)

**(512) 434-1100**  
(Registrant's telephone number including area code)

**None**

(Former name, former address and former fiscal year, if changed since last report)

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

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	HHS	New York Stock Exchange ("NYSE")

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 every Interactive Data File required to be submitted 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth 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   
Non-accelerated filer

Accelerated filer   
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 (\$2.20) as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2019), was approximately \$12,417,814.

The number of shares outstanding of each of the registrant's classes of common stock as of January 31, 2020 was 6,307,873 shares of common stock, all of one class.

**Documents incorporated by reference:**

Portions of the Proxy Statement to be filed for the company's 2020 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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December 31, 2019

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## PART I

### ITEM 1. BUSINESS

#### INTRODUCTION

Harte Hanks, Inc. (“Harte Hanks,” the “Company,” “we,” “our,” or “us”) is a purveyor of data-driven, omni-channel marketing and customer relationship solutions and logistics. The Company has robust capabilities that offer clients the strategic guidance they need across the customer data landscape as well as the executional know-how in database build and management, data analytics, digital media, direct mail, customer contact, client fulfillment and marketing and product logistics. Harte Hanks solves marketing, commerce and logistical challenges for some of the world’s leading brands in North America, Asia-Pacific and Europe.

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.

All reports filed with the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are publicly available. These documents may be accessed free of charge on our website at <http://www.hartehanks.com>. 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](http://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. These website addresses are intended to be for inactive textual references only. None of the information on, or accessible through, these websites are part of this Form 10-K or is incorporated by reference herein.

#### OUR BUSINESS

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, this is why Harte Hanks is known for developing strong customer relationships and experiences and defining interaction-led marketing.

We offer a wide variety of integrated, omni-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 that deliver greater return on their marketing investment. We believe our clients’ success is determined not only by how good their tools are, but how well we help them use these 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 suite of capabilities and resources to provide a broad range of marketing services, utilizing various different media from direct mail to email, including:

- **Agency:** We offer full-service, customer engagement solutions 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.
- **Digital Solutions:** Our digital solutions integrate online services into the marketing mix, including search engine management, display optimization, digital analytics, website development and design, digital strategy, social media, email, e-commerce, interactive relationship management and a host of other services that support our core businesses.

- **Database Marketing Solutions:** We have successfully delivered marketing database solutions across various industries to help our clients understand their customers' needs and offer communication solutions to allow them to address those needs. 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 customer acquisition and retention to maximize the value of existing customer relationships. Through insight and analytics, we help clients identify the marketing models that have proven successful with their most profitable customer relationships and then apply those marketing strategies to increase the return on investment for existing customers while also winning profitable new customers. We also aggregate our clients' customer data from multiple sources to provide our clients with a comprehensive illustration of their customers and prospective customers. We then help clients apply their data and insights to the entire customer life cycle, in turn helping clients sustain and grow their business, gain deeper customer insights, and continuously refine their customer resource management strategies and tactics.
- **Direct Mail:** 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.
- **Mail and Product Fulfillment:** We offer mail and product fulfillment solutions, including printing on demand, managing product recalls, and distributing literature and other products. Harte Hanks has temperature-controlled, FDA-approved and geographically convenient warehouses to support print and product, all controlled by our proprietary nexTOUCH platform. Our temperature-controlled, FDA-approved warehouses allow us to store and ship baby formula, sports drinks and other similar items often marketed through the distribution of samples of the product
- **Logistics:** Harte Hanks is one of the leading providers of third-party logistics and freight optimization in the United States. We complete millions of shipments of time-sensitive materials annually and have access to a certified fleet of over 15,000 trucks and a proprietary logistical system called Allink®360 that is designed to ensure customers' products are delivered on-time and on-budget.
- **Contact Centers:** We offer intelligently responsive contact center solutions, which use real-time data to effectively interact with each customer. Our on-shore and off-shore customer support representatives handle incoming calls, email, chat, video and social media requests, all in multiple languages, 24/7 to improve customer experiences. At the same time, our advanced analytics can alert customers to trending product or service issues. Our team skillfully configures Oracle CRM or Salesforce to create great customer interactions by seamlessly linking continually improving content between agent or AI-driven interfaces and web-based self-help tools or community forums. Our lead specialists engage qualified buyers and influencers with the right message at the right moment. Additionally, when combined with our Fulfillment and Logistics offerings, we provide a full suite of services for customers' warranty, returns and recall issues.

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 services. As our relationship with a new client strengthens, we seek to deepen the relationship by providing additional services.

In 2019 and 2018, Harte Hanks had revenues of \$217.6 million and \$284.6 million, respectively.

### Management Changes

Effective November 18, 2019, Andrew Bennett was appointed as Executive Chairman and Chief Executive Officer. Andrew is a seasoned executive with over 20 years of expertise in brand development, digital, direct, and marketing technology, and he was the former global CEO of Havas Creative Group, a leading marketing communications network with 12,000 employees. Andrew Harrison stepped down from his role as President, but will remain with the Company, and report to Andrew Bennett in an executive advisory role.

Effective November 18, 2019, Brian Linscott was appointed Chief Operating Officer. Brian has an accomplished track record for improving financial and operational results. Mr. Linscott's prior positions include CFO of Sun Times Media, LLC, a media company that included the Chicago Sun-Times, Managing Director of Huron Consulting Group, and a Partner at BR Advisors, where he led operation improvement, developed new partnerships and drove topline growth for media clients and other companies.

Effective November 18, 2019, Lauri Kearnes was promoted to Chief Financial Officer. Lauri has held a variety of finance positions at the Company of increasing responsibility over the past sixteen years, and she played a critical role in the restructuring initiatives discussed below under "Restructuring Activities".

## Restructuring Activities

Our management team, along with members of the Board, have formed a project committee focused on our cost-saving initiatives and other restructuring efforts. This committee has reviewed each of our business lines and other operational areas to identify both one-time and recurring cost-saving opportunities. To date, the committee has identified over \$20 million in potential annual savings, some of which we have already begun to recognize.

In the year ended December 31, 2019, we recorded restructuring charges of \$11.8 million. This comprised charges mainly related to customer database build write offs, termination fees related to certain contracts with Wipro, LLC ("Wipro"), severance agreements, asset impairment and facility related expenses.

We expect that in connection with our cost-saving and restructuring initiatives, we will incur total restructuring charges of approximately \$14.0 million through the end of 2020.

## Customers

Our services are marketed to specific industries or markets. We tailor our services and software products depending on the industry or market we are targeting. 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 8% of total revenues in 2019. Our largest 25 clients in terms of revenue comprised 64% of total revenues in 2019.

## Sales and Marketing

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. Our marketing services 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.

## Facilities

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

### Domestic Offices

Austin, Texas	Lenexa, Kansas
Chelmsford, Massachusetts	Maitland, Florida
Deerfield Beach, Florida	New York, New York
East Bridgewater, Massachusetts	Raleigh, North Carolina
Grand Prairie, Texas	Shawnee, Kansas
Jacksonville, Florida	Treose, Pennsylvania
Langhorne, Pennsylvania	Texarkana, Texas

### International Offices

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

## Competition

Our competition comes from local, national, and international marketing and advertising companies, and internal client 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 social, mobile, web-based, email, print, broadcast, and other forms of advertising for marketing and advertising dollars in general.

## 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.

## **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, and applies to all of our products in Europe.
- 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 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 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 if 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 as well as through 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).

We have developed proprietary software including NexTOUCH and Allink@360, each of which are integral to our business. NexTOUCH is key to the success of our mail and product fulfillment business while Allink@360 ensures customers' products are delivered on-time and on-budget.

## **EMPLOYEES**

As of December 31, 2019, Harte Hanks employed 1,943 full-time employees and 487 part-time employees, of which approximately 1,279 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 Exchange 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, including our ability to reduce costs pursuant to the Restructuring Activities, (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, if any, (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, and (9) 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 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 and 8-K. 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. Some participants in these industries have announced that the global outbreak of COVID-19 has affected and is expected to continue to effect operations and results for at least the near future.

To the extent these industries experience downturns, our clients may re-evaluate their marketing spend, which could adversely affect the results of our operations.

#### ***A large portion of our revenue is generated from a limited number of clients. The loss of a client or significant work from one or more of our clients could adversely affect our business.***

Our ten largest clients collectively represented 44% of our revenues for 2019. Furthermore, traditional consumer retail (which is an industry experiencing significant business model and financial challenges) represented 19% of our 2019 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 our larger clients or 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 are not replaced with profitable revenues from that client or other clients.

***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 revolving credit facility (the "Texas Capital Credit Facility"), which we amended on January 9, 2018 to increase the availability under the revolving credit facility to \$22 million and extended the term of the credit facility by one year to April 17, 2020. On May 7, 2019, we entered into another amendment to the Texas Capital Credit Facility which further extended the maturity of the facility by one year to April 17, 2021. The Texas Capital Credit Facility is secured by substantially all of our assets and is guaranteed by HHS Guaranty, LLC, an entity affiliated with one of our equity holders and one of our directors. The agreement limits our ability to incur funded debt while any obligation or letter of credit issued thereunder is outstanding, subject to customary exceptions. See Note F, 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 terms of our Series A Convertible Preferred Stock, which limits our ability to incur indebtedness without the holders' consent to the greater of \$40 million or four times our trailing 12-month EBITDA (measured at the time such indebtedness is incurred). Any failure or inability to obtain new financing arrangements when needed 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."

***Risks related to our pension benefit plans may adversely impact our results of operations and cash flows.***

Pension benefits represent significant financial obligations. Because of the uncertainties involved in estimating the timing and amount of future payments and asset returns, significant estimates are required to calculate pension expense and liabilities related to our plans. We utilize the services of independent actuaries, whose models are used to facilitate these calculations. Several key assumptions are used in the actuarial models to calculate pension expense and liability amounts recorded in the consolidated financial statements. In particular, significant changes in actual investment returns on pension assets, discount rates, or legislative or regulatory changes could impact future results of operations and required pension contributions. Differences between actual pension expenses and liability amounts from these estimated expense and liabilities may adversely impact our results of operations and cash flows.

***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, 2019 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 obtain profitability or successfully raise sufficient additional capital as needed, through future financings, asset sales 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.

***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 size of our competitors varies widely across vertical markets and service lines. 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 innovative 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 that compete with ours at lower prices by accepting lower margins and profitability or may be able to sell products or services that compete with 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). 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, that we will be able to easily suspend work with contractors that are not performing adequately, 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 and our reputation in the marketplace as well as our 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, respond to their own financial constraints (whether caused by weak economic conditions, weak industry performance or client-specific issues) by reducing their marketing spend. Customers may also be slow to restore their marketing budgets to prior levels during an economic 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. The global outbreak of COVID-19 has resulted in a near-term uncertainty for the global economy. A long-lasting economic recession, regardless of the cause, 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.

***Outbreaks of contagious diseases, or other public health pandemics, such as the COVID-19 outbreak, may adversely affect the Company's business and operations.***

The outbreak of diseases, such as the COVID-19 coronavirus, has curtailed and may curtail travel to and from certain countries, or geographic regions. Restrictions on travel to and from these countries or other regions due to additional incidences for diseases could have a material adverse effect on the Company's business, financial position, results of operations, and cash flows. The outbreak of COVID-19 has also caused significant volatility in the global markets and has also caused many companies to slow production or find alternative means for employees to perform their work. Risks and uncertainties related to this outbreak include the evolving effect of COVID-19 on our employees, customers, suppliers, and third-party providers, including the impact of U.S. and foreign government actions taken to curtail the spread of the virus. Other risks and uncertainties include, but are not limited to: the risk of customer delays, changes, cancellations or forecast inaccuracies, the lack of visibility of future business, particularly because of changing economic conditions. Although we have developed and continue to develop plans to help mitigate the negative impact of the COVID-19 outbreak to our business, the efforts may not prevent our business from being adversely affected, and the longer the outbreak impacts supply and demand the more negative the impact it likely will have on our business, revenues and earnings, and the more limited our ability will be to try and make up for delayed or lost product development, production and sales. The extent and nature of the coronavirus outbreak are uncertain, which makes it difficult for us to predict the complete effect it could have on our future operations.

***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. Our management team, along with members of the Board, have formed a project committee focused on cost-saving initiatives as well as other restructuring efforts and has been tasked with reviewing each of our business lines and other operational areas to identify both one-time and recurring cost-saving opportunities. While the committee has identified over \$20 million in potential annual savings, some of which we have already begun to recognize, we may not be able to recognize all identified potential savings and even if we are able to recognize the identified savings, such cost savings may be insufficient to achieve our cost management objectives. To the extent that we do not successfully manage our costs our financial results may be adversely affected.

***Our financial performance 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 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, as well as 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 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 sizable 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.***

On October 31, 2018, we disclosed that we received a notice from the NYSE that we were not in compliance with the "Market Capitalization Listing Requirement," which requires that we maintain an average market capitalization of over \$50 million (measured over a consecutive 30 trading-day period) if our stockholders' equity is less than \$50 million, as it has been (the "Market Capitalization Listing Requirement") since 2018.

Shortly after receipt of this notice, we submitted a plan of definitive action to the NYSE to allow us to remain listed while we attempt to regain compliance with the Market Capitalization Listing Requirement. The NYSE accepted our plan in January 2019, thereby delaying any decision to delist us for up to 18 months. In order to regain compliance with the Market Capitalization Listing Requirement, we will have to maintain the required \$50 million global market capitalization over a consecutive 30 trading-day period. The NYSE has been closely monitoring the implementation of our plan and our failure to achieve the initiatives and goals included in the plan will result in our being subject to a NYSE trading suspension and the initiation of procedures to delist our common stock. In addition, if our average global market capitalization over a consecutive 30 trading-day period is less than \$15 million, the NYSE will promptly initiate suspension and delisting procedures and, under the NYSE's continued listing standards, we will not have any opportunity to regain compliance and our common stock will be delisted. 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. A suspension or delisting could also adversely affect our relationships with our business partners and suppliers and customers' and potential customers' decisions to purchase our products and services, and would have a material, adverse impact on our business, operating results and financial condition. In addition, a suspension or delisting would impair our ability to raise additional capital through equity or debt financing as well as our ability to attract and retain employees by means of equity compensation.

As of March 13, 2020, we had not regained compliance with the Market Capitalization Listing Requirement and our global market capitalization has ranged between \$16 million and \$20 million over the last thirty trading days. As a result, the Company has been exploring options for alternative listing venues for its common stock. However, no assurance can be given that we will be able to meet the initial listing requirements of any such venue. Should the delisting occur and we are unable to list on another public exchange our common stock could be traded on the over-the-counter bulletin board, or in the so-called "pink sheets." In the event of such trading, it is highly likely that there would be: significantly less liquidity in the trading of our common stock; decreases in institutional and other investor demand for our common stock, coverage by securities analysts, market making activity and information available concerning trading prices and volume; and fewer broker-dealers willing to execute trades in our common stock. The occurrence of any of these events could result in a further decline in the market price of our common stock and may impair our ability to retain and attract employees and members of management.

***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 “Item 1. Business - 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, on May 25, 2018 the European General Data Protection Regulation (“GDPR”) took effect. The GDPR applies to all products and services we provide in the European Union (the “EU”). GDPR includes operational requirements for companies that receive or process personal data of residents of the EU. 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 the EU before processing data for certain aspects of our services. In addition, the GDPR includes significant penalties for non-compliance and, over the past 12 months, the European Union has levied some significant fines on companies for violation of the GDPR. We are also subject to the California Consumer Privacy Act (“CCPA”), which took effect on January 1, 2020. The CCPA requires businesses collecting information about California consumers to disclose what personal information is collected about a consumer and the purposes for which that personal information is used, disclose what personal information is sold or shared for a business purpose, and to whom, and delete information or stop selling such information upon request (subject to exceptions). We anticipate that additional restrictions and regulations will continue to be proposed and adopted in the future. The Philippines has 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 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 so as to require other changes to our business or our clients’ businesses. Additional restrictions and regulations may limit or prohibit current practices regarding marketing communications and information quality solutions. For example, multiple states have implemented opt out legislation for telephone marketing, requiring the creation of statewide do-not call registries. Such legislation could impact our business and the businesses of our clients and of their 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 personal data 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 clients 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 our or our customers' 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 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 be sufficient to offset the costs of such damages or cover certain events, 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, 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 the event such third parties fail to adequately protect and handle such sensitive or confidential information.

***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. Outsourcing these processes to facilities not owned by us is not a viable option. 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 of our own 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.

***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, President, Chairman, Chief Marketing Officer, and Chief Financial Officer) and we have eliminated or consolidated several leadership positions (including 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 additional 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 also 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, as well as through 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 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 when required to do so, 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 2020) 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.***

Price 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 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 for the foreseeable future. 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 the London Interbank Offered Rate ("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.

In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that, after 2021, it will stop compelling banks to submit rates for the calculation of LIBOR. Though the transition to an alternative rate is not expected to have a material impact on the Company's earnings, the transition to an alternative rate may cause interest rates, revenue, and expenses on financial instruments tied to LIBOR, such as our Texas Capital Bank credit facility, to be adversely affected.

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

Harte Hanks conducts business outside of the U.S. During 2019, approximately 16.3% 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;
- the differing costs and difficulties of managing international operations;
- modifications to international trade policy, including changes to or repeal of the North American Free Trade Agreement or the imposition of increased or new tariffs, quotas or trade barriers on key commodities; and
- geopolitical risk and adverse market conditions caused by changes in national or regional economic or political conditions (which may impact relative interest rates and the availability, cost, and terms of mortgage funds), including with regard to Brexit.

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.

***If we fail to establish and maintain proper and effective internal control over financial reporting, our operating results and our ability to operate our business could be harmed.***

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we establish and maintain internal control over financial reporting and we are also required to establish disclosure controls and procedures under applicable SEC rules. An effective internal control environment is necessary to enable us to produce reliable financial reports and is an important component of our efforts to prevent and detect financial reporting errors and fraud. Management is required to provide an annual assessment on the effectiveness of our internal control over financial reporting and our independent registered public accounting firm is also required to attest to the effectiveness of our internal control over financial reporting. Our and our auditor's testing may reveal significant deficiencies in our internal control over financial reporting that are deemed to be material weaknesses and render our internal control over financial reporting ineffective. In the past these assessments and similar reviews have led to the discovery of material weaknesses, all of which have been remediated. However, no assurance can be given that we won't discover material weaknesses in the future. We have incurred and we expect to continue to incur substantial accounting and auditing expense and expend significant management time in complying with the requirements of Section 404.

While an effective internal control environment is necessary to enable us to produce reliable financial reports and is an important component of our efforts to prevent and detect financial reporting errors and fraud, disclosure controls and internal control over financial reporting are generally not capable of preventing or detecting all financial reporting errors and all fraud. A control system, no matter how well-designed and operated, is designed to reduce rather than eliminate the risk of material misstatements in our financial statements. There are inherent limitations on the effectiveness of internal controls, including collusion, management override and failure in human judgment. A control system can provide only reasonable, not absolute, assurance of achieving the desired control objectives and the design of a control system must reflect the fact that resource constraints exist.

If we are not able to comply with the requirements of Section 404, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses (i) we could fail to

meet our financial reporting obligations; (ii) our reputation may be adversely affected and our business and operating results could be harmed; (iii) the market price of our stock could decline; and (iv) we could be subject to litigation and/or investigations or sanctions by the Securities and Exchange Commission (the "SEC"), the New York Stock Exchange or other regulatory authorities.

***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."

Because 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 squares. All facilities are held under leases, which expire at dates through 2025. See "Item 1 - Business - Facilities".

**ITEM 3. LEGAL PROCEEDINGS**

Information regarding legal proceedings is set forth in Note L, Litigation 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 under the symbol HHS. As of January 31, 2020, there are approximately 1,440 common stockholders of record. The last reported share price of our common stock on March 18, 2020 was \$2.13.

### Dividend Policy

The Company currently does not intend on paying any dividends for the foreseeable future. Any payment of future dividends will be at the discretion of Harte Hanke's Board of Directors and will depend upon, among other factors, the Company's earnings, financial condition, current and anticipated capital requirements, plans for expansion, level of indebtedness and contractual restrictions, including the provisions of the Company's other then-existing indebtedness. The payment of future cash dividends, if any, would be made only from assets legally available.

### Issuer Purchases of Equity Securities

The following table contains information about our purchases of equity securities during the fourth quarter of 2019:

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, 2019	—	\$ —	—	\$ 11,437,544
November 1 - 30, 2019	—	\$ —	—	\$ 11,437,544
December 1 - 31, 2019	—	\$ —	—	\$ 11,437,544
Total	—	\$ —	—	

(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 2019, 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, our Board has authorized us to spend up to \$20.0 million to repurchase shares of our outstanding common stock. As of December 31, 2019, we have repurchased 150,667 shares and spent \$8.6 million under this authorization.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth our selected historical financial information for the years 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.

<b>In thousands, except per share amounts</b>	<b>2019</b>	<b>2018</b>
<b>Statement of Comprehensive (Loss) Income</b>		
Revenues	\$ 217,577	\$ 284,628
Operating loss	(21,606)	(26,034)
Net (loss) income	\$ (26,264)	\$ 17,550
<b>(Loss) earnings per common share—diluted</b>		
(Loss) earnings per common share—diluted	\$ (4.26)	\$ 2.38
Weighted-average common and common equivalent shares outstanding—diluted	6,284	6,270
<b>Balance sheet data (at end of year)</b>		
Cash and cash equivalents	\$ 28,104	\$ 20,882
Total assets	110,202	125,175
Total debt	18,700	14,200
Total stockholders’ deficit	(49,683)	(19,184)

## 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 Exchange 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. The following MD&A 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, *Overview and Significant Accounting Policies*, in the Notes to Consolidated Financial Statements for further information.

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, this is why Harte Hanks is known for developing strong customer relationships and experiences and defining interaction-led marketing.

Our services include 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 suite of capabilities and resources to provide a broad range of marketing services, utilizing various different in media from direct mail to email, including:

- Agency
- Digital Solutions
- Database Marketing Solutions
- Direct Mail
- Mail and Product Fulfillment
- Logistics
- Contact Centers

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 2019. The sale of 3Q Digital in 2018, together with our Restructuring Activities that have and will continue to result in a decrease of recurring expenses, are all part 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 continue to enhance our liquidity and financial flexibility. For additional information, see "Liquidity and Capital Resources" section.

### Results of Operations

Operating results from operations were as follows:

In thousands, except per share amounts	Year Ended December 31,		
	2019	% Change	2018
Revenues	\$ 217,577	-23.6 %	\$ 284,628
Operating expenses	239,183	-23.0 %	310,662
Operating loss	\$ (21,606)	17.0 %	\$ (26,034)
Operating margin	(9.9)%	8.8 %	(9.1)%
Other expense (income)	2,905	-111.4 %	(25,472)
Income tax expense (benefit)	1,753	-109.7 %	(18,112)
Net (loss) income	\$ (26,264)	-249.7 %	\$ 17,550
Diluted EPS from operations	\$ (4.26)	-279.0 %	\$ 2.38

#### Year ended December 31, 2019 vs. Year ended December 31, 2018

##### *Revenues*

Revenues were \$217.6 million in the year ended December 31, 2019, compared to \$284.6 million in the year ended December 31, 2018. These results reflected the impact of declines in almost all of our industry verticals. Our retail, B2B, consumer brand, transportation and financial services verticals declined by \$25.0 million, or 37.6%, \$16.0 million, or 25.0%, \$11.5 million, or 19.7%, \$8.5 million, or 38.9%, \$7.9 million, or 14.7%, respectively. These declines were partially due to the sale of 3Q Digital at the end of February 2018, which led to \$6.9 million of the revenue reduction from 2018 to 2019 and primarily impacted our B2B and Consumer verticals. Additionally, non-renewing clients and lower volumes from existing clients caused the further decrease in revenues. Revenue from healthcare clients increased slightly by \$1.9 million, or 9.7%.

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 and acquiring new clients. We believe that, in the long-term, an increasing portion of overall marketing and advertising expenditures will be shifted from other advertising media to targeted media advertising resulting in a benefit to our business. Targeted media advertising results can be more effectively tracked, enabling measurement of the return on marketing investment.

##### *Operating Expenses*

Operating expenses were \$239.2 million in the year ended December 31, 2019, compared to \$310.7 million in the year ended December 31, 2018. This \$71.5 million year-over-year decline was partially caused by the sale of 3Q Digital (\$5.8 million of total operating expense reduction).

Labor costs decreased by \$42.0 million, or 25.6%, compared to the year ended December 31, 2018, primarily due to lower payroll expense as a result of Restructuring Activities and the sale of 3Q Digital (\$4.8 million). Production and distribution expenses declined \$24.4 million, or 24.3%, compared to the year ended December 31, 2018, primarily due to the lower transportation service expenses, lower broker production expense and lower production service expense in all cases due to the lower activity driving the lower revenue. The sale of 3Q Digital caused a \$0.4 million expense reduction to the year-over-year results. Advertising, Selling and General expenses declined \$9.9 million or 29.0%, primarily due to a reduction in employee-related expenses and lower professional service expense as well as the sale of 3Q Digital, which caused a \$0.6 million expense reduction to the year-over-year results.

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.

In the year ended December 31, 2019, we recorded restructuring charges of \$11.8 million. In the year ended December 31, 2018, we recorded an impairment of assets of \$4.9 million. Depreciation, software and intangible asset amortization expense declined \$2.1 million compared to the twelve months ended December 31, 2018, primarily due to the reduced capital expenditure and the elimination of the intangible assets upon the sale of 3Q Digital.

##### *Operating Loss*

Operating loss was \$21.6 million in the year ended December 31, 2019, compared to \$26.0 million in the year ended December 31, 2018. The \$4.4 million decrease in operating loss reflected the impact of a decrease in revenue of \$67.1 million, offset by a larger \$71.5 million decrease in operating expenses. The sale of 3Q Digital in late February 2018 resulted in \$1.1 million higher operating loss in 2019 because 3Q generated profit for the Company prior to its sale.

### **Interest Expense**

Interest expense, net, in the year ended December 31, 2019, decreased \$0.3 million compared to the year ended December 31, 2018. The decline was due to the elimination of interest accretion expense related to the 3Q Digital contingent consideration liability as of February 2018 which was partially offset by higher interest expense associated with increased borrowings outstanding under the Texas Capital Facility as of December 31, 2019.

### **Gain on sale**

The gain on sale for the year ended December 31, 2019 was mainly the result of the receipt of a \$5.0 million earn-out or contingent payment, related to the sale of 3Q Digital. We are not entitled to receive any additional earn-out or contingent payments in connection with the Sale of 3Q Digital.

The gain on sale for the year ended December 31, 2018 was primarily the result of the sale of 3Q Digital in late February 2018, which resulted in a gain on sale of \$31.0 million.

### **Other Expense, net**

Total other expense, net was \$7.1 million in the year ended December 31, 2019, compared to other expense of \$3.9 million in the year ended December 31, 2018. This \$3.2 million increase in other expense was primarily attributable to changes in pension expense and foreign currency revaluation.

### **Income Taxes**

#### **Year ended December 31, 2019 vs. Year ended December 31, 2018**

Our 2019 income tax expense was \$1.8 million. Unfavorably impacting our expense was change in valuation allowance due to realization of deferred tax assets for current year operations and dividend inclusions from foreign subsidiaries related to current period Global Intangible Low Tax Income (GILTI) expense, the impact of which were \$6.1 million and \$1.1 million, respectively. Favorably impacting our expense was the state tax impact to our operations, impact of which was \$0.5 million.

This compares to our 2018 income tax benefit of \$18.1 million. Favorably impacting our benefit was deductible basis on the sale of 3Q Digital (\$11.9 million), loss from deemed liquidation of foreign subsidiary (\$4.2 million), rate benefit from carryback of capital loss to 35% tax rate year (\$6.5 million) and return to provision differences (\$1.8 million). Unfavorably impacting our benefit was change in valuation allowance due to realization of deferred tax assets for current year operations and dividend inclusions from foreign subsidiaries related to current period GILTI expense, the impact of which were \$3.4 million and \$2.8 million, respectively.

### **Net (Loss) income**

#### **Year ended December 31, 2019 vs. Year ended December 31, 2018**

We recorded net loss of \$26.3 million and net income from operations of \$17.6 million in 2019 and 2018, respectively. The decrease in income from operations was mainly due to the \$31.0 million pre-tax gain recognized from the sale of 3Q Digital in February 2018, and the income tax benefit related to the items noted above, which was only partially offset by the \$5 million gain from the 3Q sale realized in 2019 as a result of the receipt of earn-out or contingent consideration.



## **Liquidity and Capital Resources**

### *Sources and Uses of Cash*

Our cash and cash equivalent and restricted cash balances were \$34.1 million and \$20.9 million as of December 31, 2019 and 2018. On June 26, 2019, we received \$15.9 million in aggregate federal income tax refunds related to carryback of capital losses. On May 7, 2019, we received a \$5 million earn-out or contingent payment from the sale of 3Q Digital. 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.

At this time, we believe that we will be able to continue to meet our liquidity requirements and fund our fixed obligations (such as debt services, operating leases and unfunded pension plan benefit payments) and other cash needs for our operations for at least the next twelve months through a combination of cash on hand, cash flow from operations and borrowings under the Texas Capital Credit Facility. Although the Company believes that it will be able to meet its cash needs for the foreseeable future, if unforeseen circumstances arise the company may need to seek alternative sources of liquidity.

### *Operating Activities*

Net cash provided by operating activities was \$12.1 million for the year ended December 31, 2019. This compared to cash used in operating activities of \$9.2 million for the year ending December 31, 2018. The \$21.3 million year-over-year increase was primarily the result of the receipt of a \$15.9 million tax refund and a \$5 million earn-out payment from the sale of 3Q received in 2019 as well as changes in working capital.

### *Investing Activities*

Net cash used in investing activities was \$2.6 million for the year ended December 31, 2019. This compared to cash used in investing activities of \$0.1 million for the year ending December 31, 2018. The \$2.5 million decrease was due to the sale of 3Q Digital in late February 2018 which was partially offset by the reduced capital expenditure in the year ended December 31, 2019.

### *Financing Activities*

Net cash provided by financing activities was \$3.1 million for the year ended December 31, 2019, compared to \$22.7 million for the year ended December 31, 2018. The \$19.6 million decrease was primarily due to the \$14.2 million of net borrowing under the Company's Texas Capital Credit Facility and the issuance of the Series A Preferred Stock in the first quarter of 2018. The above decrease of cash inflow was partially offset by \$4.5 million of borrowings under the Company's Texas Capital Credit Facility in the first quarter of 2019.

### *Foreign Holdings of Cash*

Consolidated foreign holdings of cash as of December 31, 2019 and 2018 were \$3.4 million and \$2.6 million.

### *Credit Facility*

On January 9, 2018, we entered into an amendment to the Texas Capital Credit Facility that increased our borrowing capacity to \$22.0 million and extended the maturity by one year to April 17, 2020. On May 7, 2019, we entered into an amendment to the Texas Capital Credit Facility which further extended the maturity of the facility by one year to April 17, 2021. The Texas Capital Credit Facility remains secured by substantially all of our assets and continues to be guaranteed by HHS Guaranty, LLC, an entity affiliated with one of our largest equity holders and one of our directors. We pay HHS Guaranty, LLC an annual fee of 0.5% of collateral actually pledged to secure the facility, which for 2019 amounted to \$0.5 million.

At December 31, 2019 and 2018, we had letters of credit in the amount of \$2.8 million outstanding. No amounts were drawn against these letters of credit at December 31, 2019 and 2018. These letters of credit exist to support insurance programs relating to workers' compensation, automobile, and general liability. We had no other off-balance sheet arrangements at December 31, 2019 and 2018.

As of December 31, 2019 and 2018, we had \$18.7 million and \$14.2 million of borrowings outstanding under the Texas Capital Facility. As of December 31, 2019, we had the ability to borrow an additional \$1.6 million under the facility.

## Contractual Obligations

Contractual obligations at December 31, 2019 are as follows:

In thousands	Total	2020	2021	2022	2023	2024	Thereafter
Debt	\$ 18,700	\$ —	\$ 18,700	\$ —	\$ —	\$ —	\$ —
Interest on debt <sup>(1)</sup>	1,791	\$ 1,343	\$ 448	—	—	—	—
Operating lease obligations	24,787	9,090	6,994	5,113	2,193	1,274	123
Finance lease obligations	1,044	431	238	189	151	35	—
Purchase obligations and others <sup>(2)</sup>	6,283	2,712	2,458	1,111	2	—	—
Other purchase obligations reflected on our balance sheet <sup>(3)</sup>	1,130	391	328	137	137	137	—
Unfunded pension plan benefit payments <sup>(4)</sup>	17,709	1,715	1,745	1,791	1,841	1,842	8,775
Total contractual cash obligations	\$ 71,444	\$ 15,682	\$ 30,911	\$ 8,341	\$ 4,324	\$ 3,288	\$ 8,898

(1) Assumes \$17.7 million and \$8.4 million of average debt outstanding for the years ended December 31, 2020 and December 31, 2021 and that the interest rate was equal to our weighted average borrowing rate of 2019.

(2) Includes purchase obligations related to data center operations, licenses and telecommunication contracts cost that are not reflected on the consolidated balance sheets. For those agreements with variable terms, we do not estimate the total obligation beyond any minimum quantities and/or pricing as of the reporting date.

(3) Includes purchase obligation primarily related to license agreement recorded on our Consolidated Balance Sheet as of December 31, 2019.

(4) Includes unfunded pension obligations of non-qualified, supplemental Restoration Pension plan.

## Dividends

We did not pay any dividends in either 2019 or 2018. We currently intend to retain any future earnings and do not expect to pay cash dividends on our common stock in the foreseeable future. Any future dividend declaration can be made only upon, and subject to, approval of our Board, based on its business judgment.

## Share Repurchase

During 2019 and 2018, 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, 2019, we had authorization of \$11.4 million under this program. From 1997 through December 31, 2019, we 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 no conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern for the twelve months following the issuance of the Consolidated 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, Overview and 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 upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to be entitled to receive in exchange for those products or services. We apply the following five-step revenue recognition model:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when (or as) we satisfy the performance obligation

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.

## **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 I, *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, *Overview and Significant Accounting Policies*, in 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 2019 would have an immaterial impact on our interest expense. At December 31, 2019, the company had \$18.7 million of debt outstanding under the Texas Capital Credit Facility. 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, 2019, 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 \$1.0 million pre-tax currency transaction gain in 2019 and \$0.5 million in pre-tax currency transaction loss in 2018. 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. 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 33 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 Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") as appropriate to allow timely decisions regarding required disclosure.

Our management, including our CEO and CFO 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, 2019. Based upon such evaluation, our CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective, at the "reasonable assurance" level, to ensure information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our CEO and CFO, for our internal control over financial reporting to determine whether any changes occurred during the fourth quarter of 2019 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there were no changes other than what is disclosed below in our internal control over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We may make changes in our internal control processes from time to time in the future. It should also be noted that, because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and controls may become inadequate because of changes in conditions or in the degree of compliance with the policies or procedures.

### *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 and CFO, 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 effective.

### **Remediation of Prior Period Material Weakness**

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on March 18, 2019, we identified two material weaknesses in our internal control over financial reporting. 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. During the first two quarters of 2019, we engaged in the implementation of remedial measures designed to address these material weaknesses. In the third and fourth quarters of 2019, we completed the testing of the design and operating effectiveness of the new procedures and controls. As a result, our management concluded that, as of December 31, 2019, we had remediated the previously reported material weaknesses.

We implemented the following changes in our internal control over financial reporting during 2019 that contributed to remediating the previously disclosed material weaknesses described above:

- We continued to act upon the enhancements to our internal controls that we implemented in 2018 as described in our Annual Report on Form 10-K for the year ended December 31, 2018;

- We continued to improve our review procedures to address the completeness and accuracy of data used in our reviews as well as the precision of our reviews; and
- We enhanced the procedures performed to obtain, generate and communicate relevant and accurate information used to support the function of internal control over financial reporting.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal controls over financial reporting, other than those stated above, during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 9B. OTHER INFORMATION**

None.



### PART III

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this item will be included in an amendment hereto or a definitive proxy statement to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019.

#### **ITEM 11. EXECUTIVE COMPENSATION**

Information required by this item will be included in an amendment hereto or a definitive proxy statement to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019.

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

Information required by this item will be included in an amendment hereto or a definitive proxy statement to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019.

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

Information required by this item will be included in an amendment hereto or a definitive proxy statement to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required by this item will be included in an amendment hereto or a definitive proxy statement to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019.

**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 32 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.

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

<a href="#"><u>Reports of Independent Registered Public Accounting Firm on the Consolidated Financial Statements</u></a>	<a href="#"><u>34</u></a>
<a href="#"><u>Consolidated Balance Sheets as of December 31, 2019 and 2018</u></a>	<a href="#"><u>36</u></a>
<a href="#"><u>Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2019 and 2018</u></a>	<a href="#"><u>38</u></a>
<a href="#"><u>Consolidated Statements of Changes in Stockholders' Deficit for the years ended December 31, 2019 and 2018</u></a>	<a href="#"><u>39</u></a>
<a href="#"><u>Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018</u></a>	<a href="#"><u>40</u></a>
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	<a href="#"><u>41</u></a>

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 Board of Directors and Stockholders of Harte Hanks, Inc.

### ***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheet of Harte Hanks, Inc. (the Company) as of December 31, 2019, and the related consolidated statements of comprehensive loss (income), changes in stockholders' deficit, and cash flows for the year then ended, 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, 2019 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As discussed in Note B to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

### ***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 audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit 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 audit 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 audit provides a reasonable basis for our opinion.

/S/ Moody, Famiglietti & Andronico, LLP

We have served as the Company's auditor since 2019

Tewksbury, Massachusetts

March 19, 2020

## 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 sheet of Harte Hanks, Inc. and subsidiaries (the "Company") as of December 31, 2018, the related consolidated statements of comprehensive income (loss), changes in stockholders' deficit, and cash flows for the year then ended, 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, 2018, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### Change in Accounting Principle

As discussed in Note B to the financial statements, the Company changed its method of accounting for revenue from contracts with customers in 2018 due to adoption of the new revenue standard. The Company adopted the new revenue standard using a modified retrospective approach.

### 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 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 the financial statements are free of material misstatement, whether due to error or fraud. Our audit 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 audit 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 audit provides a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

San Antonio, Texas

March 18, 2019

We began serving as the Company's auditor in 2016. In 2019 we became the predecessor auditor.

## Harte Hanks, Inc. and Subsidiaries Consolidated Balance Sheets

In thousands, except per share and share amounts	December 31,	
	2019	2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 28,104	\$ 20,882
Restricted cash	6,018	—
Accounts receivable (less allowance for doubtful accounts of \$666 at December 31, 2019 and \$430 at December 31, 2018)	38,972	54,240
Contract assets	805	2,362
Inventory	354	448
Prepaid expenses	3,300	4,088
Prepaid income tax and income tax receivable	78	20,436
Other current assets	1,670	2,536
Total current assets	79,301	104,992
Property, plant and equipment		
Buildings and improvements	13,788	15,737
Equipment and furniture	71,457	80,230
Software	47,609	50,531
Software development and equipment installations in progress	12	653
Gross property, plant and equipment	132,866	147,151
Less accumulated depreciation and amortization	(124,543)	(133,559)
Net property, plant and equipment	8,323	13,592
Right-of-use assets	18,817	—
Other assets	3,761	6,591
Total assets	\$ 110,202	\$ 125,175
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities		
Accounts payable and accrued expenses	16,917	31,052
Accrued payroll and related expenses	4,215	6,783
Deferred revenue and customer advances	4,397	6,034
Customer postage and program deposits	9,767	6,729
Other current liabilities	2,619	3,564
Short-term lease liabilities	7,616	—
Total current liabilities	45,531	54,162
Long-term debt		
Pensions	70,000	62,214
Deferred tax liability, net	244	—
Long-term lease liabilities	13,078	—
Other long-term liabilities	2,609	4,060
Total liabilities	150,162	134,636
Preferred stock, \$1 par value, 1,000,000 shares authorized; 9,926 shares of Series A Convertible Preferred Stock, issued and outstanding		
	9,723	9,723
Stockholders' deficit		
Common stock, \$1 par value, 25,000,000 shares authorized, 12,121,484 and 12,115,055 shares issued, 6,302,936 and 6,260,075 shares outstanding at December 31, 2019 and December 31, 2018, respectively	12,121	12,115
Additional paid-in capital	447,022	453,868
Retained earnings	797,817	812,704
Less treasury stock, 5,818,548 shares at cost at December 31, 2019 and 5,854,980 shares at cost at December 31, 2018	(1,243,509)	(1,251,388)
Accumulated other comprehensive loss	(63,134)	(46,483)
Total stockholders' deficit	(49,683)	(19,184)

Total liabilities, preferred stock and stockholders' deficit	\$ 110,202	\$ 125,175
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See Accompanying Notes to Consolidated Financial Statements.

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

In thousands, except per share amounts	Year Ended December 31,	
	2019	2018
Revenues	\$ 217,577	\$ 284,628
Operating expenses		
Labor	121,853	163,857
Production and distribution	75,900	100,253
Advertising, selling, general and administrative	24,292	34,212
Restructuring expense	11,799	—
Impairment of assets	—	4,888
Depreciation, software and intangible asset amortization	5,339	7,452
Total operating expenses	239,183	310,662
Operating loss	(21,606)	(26,034)
Other expense and (income)		
Interest expense, net	1,262	1,551
Gain on sale from 3Q Digital	(5,471)	(30,954)
Other, net	7,114	3,931
Total other expense and (income)	2,905	(25,472)
Loss before income taxes	(24,511)	(562)
Income tax expense (benefit)	1,753	(18,112)
Net (loss) income	\$ (26,264)	\$ 17,550
Less: Earnings attributable to participating securities	—	2,202
Less: Preferred stock dividends	496	457
(Loss) income attributable to common stockholders	\$ (26,760)	\$ 14,891
(Loss) earnings per common share		
Basic	\$ (4.26)	\$ 2.39
Diluted	\$ (4.26)	\$ 2.38
Weighted-average shares used to compute (loss) earnings per share attributable to common shares		
Basic	6,284	6,237
Diluted	6,284	6,270
Comprehensive (loss) income, net of tax		
Net income (loss)	\$ (26,264)	\$ 17,550
Adjustment to pension liability	\$ (5,948)	\$ (1,166)
Foreign currency translation adjustments	652	(1,014)
Adoption of ASU 2018-02	(11,355)	—
Total other comprehensive loss, net of tax	(16,651)	(2,180)
Comprehensive (loss) income	\$ (42,915)	\$ 15,370

See Accompanying Notes to Consolidated Financial Statements.



## Harte Hanks, Inc. and Subsidiaries Consolidated Statements of Changes in Stockholders' Deficit

In thousands	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income(loss)	Total Stockholders' Equity (Deficit)
Balance at December 31, 2017	\$ —	\$ 12,075	\$ 457,186	\$ 794,583	\$ (1,254,176)	\$ (44,303)	\$ (34,635)
Cumulative effect of accounting change	—	—	—	571	—	—	571
Preferred stock issued	9,723	—	—	—	—	—	—
Exercise of stock options and release of unvested shares	—	78	(159)	—	(34)	—	(115)
Rounding from reverse stock split	—	(38)	38	—	—	—	—
Stock-based compensation	—	—	(438)	—	—	—	(438)
Treasury stock issued	—	—	(2,759)	—	2,822	—	63
Net income	—	—	—	17,550	—	—	17,550
Other comprehensive loss	—	—	—	—	—	(2,180)	(2,180)
Balance at December 31, 2018	\$ 9,723	\$ 12,115	\$ 453,868	\$ 812,704	\$ (1,251,388)	\$ (46,483)	\$ (19,184)
Effect of change in accounting principle	—	—	—	11,377	—	(11,355)	22
Exercise of stock options and release of unvested shares	—	6	(12)	—	—	—	(6)
Stock-based compensation	—	—	1,030	—	—	—	1,030
Treasury stock issued	—	—	(7,864)	—	7,879	—	15
Net loss	—	—	—	(26,264)	—	—	(26,264)
Other comprehensive loss	—	—	—	—	—	(5,296)	(5,296)
Balance at December 31, 2019	\$ 9,723	\$ 12,121	\$ 447,022	\$ 797,817	\$ (1,243,509)	\$ (63,134)	\$ (49,683)

See Accompanying Notes to Consolidated Financial Statements.

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

In thousands	Year Ended December 31,	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Net (loss) income	\$ (26,264)	\$ 17,550
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities		
Depreciation and software amortization	5,341	7,339
Intangible asset amortization	—	113
Restructuring	5,742	—
Impairment of assets	—	4,888
Stock-based compensation	1,074	(581)
Net pension cost	1,838	1,712
Interest accretion on contingent consideration	—	742
Deferred income taxes	996	(1,645)
Gain on sale from 3Q Digital	—	(32,760)
Other, net	—	(207)
Changes in assets and liabilities, net of dispositions:		
Decrease in accounts receivable, net and contract assets	16,825	7,468
Decrease in inventory	94	139
Decrease (Increase) in prepaid expenses, income tax receivable and other current assets	20,439	(16,930)
(Decrease) increase in accounts payable	(13,750)	9,248
Decrease in other accrued expenses and liabilities	(238)	(6,257)
Net cash provided by (used in) operating activities	12,097	(9,181)
<b>Cash Flows from Investing Activities</b>		
Dispositions, net of cash transferred	—	3,929
Purchases of property, plant and equipment	(2,895)	(4,206)
Proceeds from the sale of property, plant and equipment	300	225
Net cash used in investing activities	(2,595)	(52)
<b>Cash Flows from Financing Activities</b>		
Borrowings	4,500	23,200
Repayment of borrowings	—	(9,000)
Debt financing costs	(616)	(591)
Issuance of common stock	(6)	(115)
Issuance of preferred stock, net of transaction fees	—	9,723
Payment of finance leases	(807)	(548)
Issuance of treasury stock	15	63
Net cash provided by financing activities	3,086	22,732
Effect of exchange rate changes on cash and cash equivalents	652	(1,014)
Effect of exchange rate changes on restricted cash	—	—
Net increase in cash and cash equivalents and restricted cash	13,240	12,485
Cash and cash equivalents and restricted cash at beginning of year	20,882	8,397
Cash and cash equivalents and restricted cash at end of year	\$ 34,122	\$ 20,882
<b>Supplemental disclosures</b>		
Cash paid for interest	\$ 875	\$ 199
Cash received for income taxes, net of refunds	\$ 19,405	\$ 119
<b>Non-cash investing and financing activities</b>		
Purchases of property, plant and equipment included in accounts payable and accrued expense	\$ 800	\$ 1,108
New finance lease obligations	\$ —	\$ 372

See Accompanying Notes to Consolidated Financial Statements

**Note A — Overview and significant Accounting Policies**

**Background**

Harte Hanks, Inc. (“Harte Hanks,” “Company,” “we,” “our,” or “us”) is a purveyor of data-driven, omni-channel marketing and customer relationship solutions and logistics. The Company has robust capabilities that offer clients the strategic guidance they need across the customer data landscape as well as the executional know-how in database build and management, data analytics, digital media, direct mail, customer contact, client fulfillment and marketing and product logistics. Harte Hanks solves marketing, commerce and logistical challenges for some of the world’s leading brands in North America, Asia-Pacific and Europe.

The Company operates as one reportable segment. Our Chief Executive Officer is considered to be our chief operating decision maker. He reviews our operating results on an aggregate basis for purposes of allocating resources and evaluating financial performance.

**Securities Purchase Agreement**

On January 23, 2018, we entered into a Securities Purchase Agreement with Wipro, pursuant to which on January 30, 2018, we issued 9,926 shares of Series A Convertible Preferred Stock, par value \$1 per share (“Series A Preferred Stock”), for aggregate consideration of \$9.9 million. Dividends on the Series A Preferred Stock accrue 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 Preferred Stock issued under the Securities Purchase Agreement are convertible into 1,001,614 shares of our Common Stock. Dividends are payable solely upon a Liquidation (as defined in the Certificate of Designation), and only if prior to such Liquidation such shares of Series A Preferred Stock have not been converted to Common Stock.

Along with customary protective provisions, Wipro has designated an observer to the Board of Directors. We used the proceeds from the issuance for general corporate purposes including working capital purposes.

See Note E, *Convertible Preferred Stock*, for further information.

**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.

**Geographic Concentrations**

Depending on the needs of our clients, our services are provided through an integrated approach through twenty-one facilities worldwide, of which four are located outside of the U.S.

Information about the operations in different geographic areas:

In thousands	Year Ended December 31,	
	2019	2018
<b>Revenue (1)</b>		
United States	\$ 182,034	\$ 243,298
Other countries	35,543	41,330
Total revenue	\$ 217,577	\$ 284,628

In thousands	December 31,	
	2019	2018
<b>Property, plant and equipment (2)</b>		
United States	\$ 6,836	\$ 11,647
Other countries	1,102	1,945
Total property, plant and equipment	\$ 8,323	\$ 13,592

(1) Geographic revenues are based on the location of the service being performed.

(2) Property, plant and equipment are based on physical location.

### Related Party Transactions

Since 2016, we have conducted (and we continue to conduct) business with Wipro, whereby Wipro provides us with a variety of technology-related services, including database and software development, database support and analytics, IT infrastructure support, and digital campaign management. Additionally, we provide Wipro with agency and consulting services.

Effective January 30, 2018, Wipro became a related party when it purchased 9,926 shares of our Series A Preferred Stock (which are convertible at Wipro's option into 1,001,614 shares, or 16% of our Common Stock as of January 30, 2018), for aggregate consideration of \$9.9 million. For information pertaining to the Company's preferred stock, See Note E, *Convertible Preferred Stock*.

### Consolidation

The accompanying audited consolidated financial statements include the accounts of Harte Hanks, Inc. and subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. As used in this report, the terms "Harte Hanks," "the Company," "we," "us," or "our" may refer to Harte Hanks, Inc., one or more of its consolidated subsidiaries, or all of them taken as a whole, as the context may require.

### 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 lease accounting; pension accounting; fair value for purposes of assessing long-lived assets for impairment; income taxes; stock-based compensation 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 (Loss) Income

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 upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to be entitled to receive in exchange for those products or services. We apply the following five-step revenue recognition model:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when (or as) we satisfy the performance obligation

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.

Revenue from agency and digital services, direct mail, logistics, fulfillment and contact center is recognized as the work is performed. Fees for these services are determined by the terms set forth in the contract 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.

### 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 and restricted cash, accounts receivable, and trade payables, and long-term debt. The fair value of the assets in our funded pension plan is disclosed in Note H, *Employee Benefit Plans*.

### 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.

### Restricted Cash

In our normal business operation, we receive cash from our customers for certain customer program service funding. As these programs impose legal restrictions on the commingling of funds, we present this cash as restricted cash.

### 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:

In thousands	Year Ended December 31,	
	2019	2018
Balance at beginning of year	\$ 430	\$ 697
Net charges to expense	351	131
Amounts recovered against the allowance	(115)	(398)
Balance at end of year	\$ 666	\$ 430

## Inventory

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

## 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 recorded a \$4.7 million and \$4.9 million impairment of long-lived assets in 2019 and 2018, respectively. 2019 impairment charges are included in the restructuring expense in our Consolidated Statements of Comprehensive (Loss) income.

For 2018, capital lease assets are included in property, plant and equipment. Capital lease assets consisted of:

In thousands	December 31, 2018	
Equipment and furniture	\$	2,658
Less accumulated depreciation		(920)
Net book value	\$	1,738

## Leases

We determine if an arrangement is a lease at its inception. Operating and finance leases are included in the lease right-of-use ("ROU") assets and the current portion and long-term portion of lease obligations on our consolidated balance sheets. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease, which are included in the lease ROU asset when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, which are generally accounted for separately. For certain real estate leases, we account for the lease and non-lease components as a single lease component. See Note B, *Recent Accounting Pronouncements - Recently adopted accounting pronouncements*.

## 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 (Loss) Per Share

Basic earnings (loss) per common share are based upon the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) 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 (Loss) income. 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. 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, 2019 and 2018, our reserve for healthcare, workers' compensation, net, automobile, and general liability was \$2.1 million and \$2.7 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 (Loss) Income. 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.

## Note B - Recent Accounting Pronouncements

### ***Recently issued accounting pronouncements not yet adopted***

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-12, which enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. The standard will be effective for us in the fiscal year 2021, although early adoption is permitted. We do not expect that the adoption of this ASU will have a significant impact on our consolidated financial statements.

In April 2019, the FASB issued guidance to amend or clarify certain areas within three previously issued standards related to financial instruments which includes clarification for fair value using the measurement alternative, measuring credit losses and accounting for derivatives and hedging. The amendments in this guidance are largely effective for fiscal years beginning after December 15, 2019 with early adoption permitted. We have not elected early adoption and do not anticipate that this guidance will have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans (ASU 2018-14)*, which modifies the disclosure requirements for defined benefit pension plans and other postretirement plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020, and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2018-14 on our consolidated financial statements.

### ***Recently adopted accounting pronouncements***

#### *Income taxes*

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU allows for reclassification of stranded tax effects on items resulting from the change in the corporate tax rate as a result of H.R. 1, originally known as the Tax Cuts and Jobs Act of 2017, from accumulated other comprehensive income to retained earnings. Tax effects unrelated to H.R. 1 are permitted to be released from accumulated other comprehensive income using either the specific identification approach or the portfolio approach, based on the nature of the underlying item. ASU 2018-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. We adopted ASU 2018-02 in the first quarter of 2019. See Note I, *Income Taxes*, for a discussion of the impacts of this ASU.

#### *Stock-based Compensation*

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation (Topic 718): Improvements to nonemployee share-based payment accounting*, which supersedes ASC 505-50, *Accounting for Distributions to Shareholders with Components of Stock and Cash*, and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both non-employees and employees. As a result, most of the guidance in ASC 718 associated with employee share-based payments, including most of its requirements related to classification and measurement, applies to non-employee share-based payment arrangements. The ASU is effective for annual periods beginning after December 15, 2018, and

the interim periods within those fiscal years with early adoption permitted after the entity has adopted ASC 606. This standard was adopted as of January 1, 2019 and did not have a material impact on our consolidated financial statements and related disclosures.

#### *Leases*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* and subsequent amendment ASU 2018-11, which requires all operating leases to be recorded on the balance sheet unless the practical expedient is elected for short-term operating leases. 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, with early adoption permitted. This change is required to be applied using a modified retrospective approach for leases that exist or are entered after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited. In July 2018, the FASB approved an optional transition method to initially account for the impact of the adoption with a cumulative-effect adjustment to the January 1, 2019, rather than the January 1, 2017, financial statements. This will eliminate the need to restate amounts presented prior to January 1, 2019.

We adopted the standard effective January 1, 2019, and we elected the optional transition method and the practical expedients permitted under the transition guidance within the standard. Accordingly, we accounted for our existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether classification of the operating leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2018) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

The standard had a material impact on our consolidated balance sheets, but did not have an impact on our consolidated statements of comprehensive (loss) income or cash flows from operations. The cumulative effect of the changes on our retained earnings was \$22 thousand associated with capital gain. The most significant impact was the recognition of right-of-use (ROU) assets and lease liabilities for operating leases. Our accounting for finance leases remained substantially unchanged. See Note D, *Leases* for further discussion.

#### *Restricted Cash*

In the first quarter of 2019, the Company adopted ASU 2016-18, *Statement of Cash flows (Topic 230): Restricted Cash*, which enhances and clarifies the guidance on the classification and presentation of restricted cash in the statement of cash flows and requires additional disclosures about restricted cash balances.

#### *Revenue Recognition*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). We adopted ASC 606 effective on January 1, 2018 using the modified retrospective method. Please see Note C, *Revenue from Contracts with Customers*, for the required disclosures related to the impact of adopting this standard and a discussion of our updated policies related to revenue recognition and accounting for costs to obtain and fulfill a customer contract.

#### **Note C - Revenue from Contracts with Customers**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. Under ASC 606, *Revenue from Contracts with Customers*, 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 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.

Under ASC 606, revenue is recognized when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Our contracts with customers state the terms of sale, including the description, quantity, and price of the product or service purchased. Payment terms can vary by contract, but the period between invoicing and when payment is due is not significant. At December 31, 2019 and December 31, 2018, our contracts do not include any significant financing components.



Consistent with legacy GAAP, we present taxes assessed on revenue-producing transactions on a net basis.

### Disaggregation of Revenue

We disaggregate revenue by vertical market and key revenue stream. The following table summarizes revenue from contracts with customers for the twelve months ended December 31, 2019 and 2018 by our key vertical markets:

In thousands	For the Year Ended December 31, 2019		For the Year Ended December 31, 2018	
B2B	\$	48,029	\$	64,026
Consumer Brands		46,874		58,382
Financial Services		45,978		53,919
Healthcare		21,862		19,931
Retail		41,505		66,545
Transportation		13,329		21,825
<b>Total Revenues</b>	<b>\$</b>	<b>217,577</b>	<b>\$</b>	<b>284,628</b>

The nature of the services offered by each key revenue stream are different. The following tables summarize revenue from contracts with customers for the years ended December 31, 2019 and 2018 by our four major revenue streams and the pattern of revenue recognition:

In thousands	For the Year Ended December 31, 2019		
	Revenue for performance obligations recognized over time	Revenue for performance obligations recognized at a point in time	Total
Agency & Digital Services	\$ 24,306	\$ 827	\$ 25,133
Contact Centers	61,784	—	61,784
Database Marketing Solutions	22,414	3,277	25,691
Direct Mail, Logistics, and Fulfillment	88,839	16,130	104,969
<b>Total Revenues</b>	<b>\$197,343</b>	<b>\$20,234</b>	<b>\$217,577</b>

In thousands	For the Year Ended December 31, 2018		
	Revenue for performance obligations recognized over time	Revenue for performance obligations recognized at a point in time	Total
Agency & Digital Services	\$ 34,621	\$ 1,138	\$ 35,759
Contact Centers	78,298	—	78,298
Database Marketing Solutions	31,684	3,526	35,210
Direct Mail, Logistics, and Fulfillment	128,372	6,989	135,361
<b>Total Revenues</b>	<b>\$272,975</b>	<b>\$11,653</b>	<b>\$284,628</b>

Our contracts with customers may consist of multiple performance obligations. If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price ("SSP") basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation. For most performance obligations, we determine SSP based on the price at which the performance obligation is sold separately.

Although uncommon, if the SSP is not observable through past transactions, we estimate the SSP taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations. Further discussion of other performance obligations in each of our major revenue streams follows:

#### *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. 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. Our contracts may include a promise to purchase media or acquire search engine marketing solutions on behalf of our clients; in such cases, we have determined we are an agent, rather than principal and therefore recognize the net consideration as revenue.

Agency and digital services performance obligations are satisfied over time and often offered on a project basis. We have concluded that the best approach of measuring the progress toward completion of the project-based performance obligations is the input method based on costs or labor hours incurred to date dependent upon whether costs or labor hours more accurately depict the transfer of value to the customer.

The variable consideration in these contracts primarily relates to time and material-based services and reimbursable out-of-pocket travel costs, both of which are estimated using the expected value method. For time and material-based contracts, we use the "as invoiced" practical expedient.

#### *Contact Centers*

We operate tele-service workstations in the U.S., Asia, and Europe to provide advanced contact center solutions such as: speech, voice and video chat, integrated voice response, analytics, social cloud monitoring, and web self-service.

Performance obligations are stand-ready obligations and satisfied over time. With regard to account management and SaaS, we use a time-elapsed output method. For performance obligations where we charge customers a transaction-based fee, we use the output method based on transaction quantities. In most cases, our contracts provide us the right to invoice for services provided, therefore, we generally use the "as invoiced" practical expedient to recognize revenue associated with these performance obligations unless significant discounts are offered in a contract and prices for services do not represent their standalone selling prices.

The variable consideration in our contracts results primarily from the transaction-based fee structure of some performance obligations with their total transaction quantities to be provided unknown at the onset of a contract, which is estimated using the expected value method.

#### *Database Marketing Solutions*

Our solutions are built around centralized marketing databases with services rendered to build custom database, database hosting services, customer or target marketing lists and data processing services.

These performance obligations, including services rendered to build a custom database, database hosting services, professional services, customer or target marketing lists and data processing services, may be satisfied over time or at a point in time. We provide software as a service ("SaaS") solutions to host data for customers and have concluded that they are stand-ready obligations to be recognized over time on a monthly basis. Our promise to provide certain data related services meets the over-time recognition criteria because our services do not create an asset with an alternative use, and we have an enforceable right to payment. For performance obligations recognized over time, we choose either the input (i.e. labor hour) or output method (i.e. number of customer records) to measure the progress toward completion depending on the nature of the services provided. Some of our other data-related services do not meet the over-time criteria and are therefore, recognized at a point-in-time, typically upon the delivery of a specific deliverable.

We charge our customers for certain data-related services at a fixed transaction-based rate, e.g., per thousand customer records processed. Because the quantity of transactions is unknown at the onset of a contract, our transaction price is variable, and we use the expected value method to estimate the transaction price. The uncertainty associated with the variable consideration generally resolves within a short period of time since the duration of these contracts is generally less than two months.

## Direct Mail, Logistics, and Fulfillment

Our services include digital printing, print on demand, advanced mail optimization, logistics and transportation optimization, tracking, 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.

The majority of performance obligations offered within this revenue stream are satisfied over time and utilize the input or output method, depending on the nature of the service, to measure progress toward satisfying the performance obligation. For performance obligations where we charge customers a transaction-based fee, we utilize the output method based on the quantities fulfilled. Services provided through our fulfillment centers are typically priced at a per transaction basis and our contracts provide us the right to invoice for services provided and reflects the value to the customer of the services transferred to date. In most cases, we use the "as invoiced" practical expedient to recognize revenue associated with these performance obligations unless significant discounts are offered in a contract and prices for services do not represent their standalone selling prices. For our direct mail revenue stream, our contracts may include a promise to purchase postage on behalf of our clients; in such cases, we have determined we are an agent, rather than principal and therefore recognize net consideration as revenue.

The variable consideration in our contracts results primarily from the transaction-based fee structure of some performance obligations with their total transaction quantities to be provided unknown at the onset of a contract, which is estimated using the expected value method.

### Upfront Non-Refundable Fees

We may receive non-refundable upfront fees from customers for implementation of our SaaS database solutions products or for providing training in connection with our contact center solutions. These activities are not deemed to transfer a separate promised service and therefore, represent advanced payments. Where customers have an option to renew a contract, the customer is not required to pay similar upfront fees upon renewal. As a result, we have determined that these renewal options provide for the purchase of future services at a reduced rate and therefore, provide a material right. These upfront non-refundable fees are recognized over the period of benefit which is generally consistent with estimated customer life (four to five years for database solutions contracts and six months to one year for contact center contracts). The balance of upfront non-refundable fees collected from customers was immaterial as of December 31, 2019 and 2018.

### Transaction Price Allocated to Future Performance Obligations

We have elected to apply certain optional exemptions that limit the disclosure requirements over remaining performance obligations at period end to exclude: performance obligations that have an original expected duration of one year or less, transactions using the "as invoiced" practical expedient, or when a performance obligation is a series and we have allocated the variable consideration directly to the services performed. After considering the above exemptions, the transaction prices allocated to unsatisfied or partially satisfied performance obligations as of December 31, 2019 totaled \$0.1 million, which is expected to be recognized in 2020.

### Contract Balances

We record a receivable when revenue is recognized prior to invoicing when we have an unconditional right to consideration (only the passage of time is required before payment of that consideration is due) and a contract asset when the right to payment is conditional upon our future performance such as delivery of an additional good or service (e.g. customer contract requires customer's final acceptance of custom database solution or delivery of final marketing strategy delivery presentation before customer payment is required). If invoicing occurs prior to revenue recognition, the unearned revenue is presented on our Consolidated Balance Sheet as a contract liability, referred to as deferred revenue. The following table summarizes our contract balances as of December 31, 2019 and 2018:

In thousands	December 31, 2019	December 31, 2018
Contract assets	\$ 805	\$ 2,362
Deferred revenue and customer advances	4,397	6,034
Deferred revenue included in other long-term liabilities	886	578

Revenue recognized during the year ended December 31, 2019 from amounts included in deferred revenue at the beginning of the period was approximately \$4.3 million.

#### Costs to Obtain and Fulfill a Contract

We recognize an asset for the direct costs incurred to obtain and fulfill our contracts with customers to the extent that we expect to recover these costs and if the benefit is longer than one year. These costs are amortized to expense over the expected period of benefit in a manner that is consistent with the transfer of the related goods or services to which the asset relates. We capitalized a portion of commission expense, implementation and other costs that represents the cost to obtain and fulfill a contract. The remaining unamortized contract costs were \$1.9 million and \$3.8 million as of December 31, 2019 and 2018. For the years presented, \$0.1 million impairment was recognized in Q4 2018.

#### Note D - Leases

On January 1, 2019, the Company adopted Topic 842 using the modified retrospective approach with optional transition method. The Company recorded operating lease assets (right-of-use assets) of \$22.8 million and operating lease liabilities of \$23.9 million. There was minimal impact to retained earnings upon adoption of Topic 842.

We have operating and finance leases for corporate and business offices, service facilities, call centers and certain equipment. Leases with an initial term of 12 months or less are generally not recorded on the balance sheet, unless the arrangement includes an option to purchase the underlying asset, or an option to renew the arrangement, that we are reasonably certain to exercise (short-term leases). Our leases have remaining lease terms of 1 year to 6 years, some of which may include options to extend the leases for up to 5 years, and some of which may include options to terminate the leases within 1 year.

As of December 31, 2019, assets recorded under finance and operating leases were approximately \$1.1 million and \$17.7 million respectively, and accumulated amortization associated with finance leases was \$0.4 million. Operating lease right of use assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The discount rate used to determine the commencement date present value of lease payment is the interest rate implicit in the lease, or when that is not readily determinable, we utilized our incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received.

The following table presents supplemental balance sheet information related to our financing and operating leases:

In thousands	As of December 31, 2019		
	Operating Leases	Finance Leases	Total
Right-of-use Assets	\$ 17,679	\$ 1,138	\$ 18,817
Liabilities			
Short-term lease liabilities	7,226	390	7,616
Long-term lease liabilities	12,514	564	13,078
Total Lease Liabilities	\$ 19,740	\$ 954	\$ 20,694

For the year ended December 31, 2019, the components of lease expense were as follows:

In thousands	Year Ended December 31, 2019
Operating lease cost	\$ 9,251
Finance lease cost	
Amortization of right-of-use assets	298
Interest on lease liabilities	70
Total Finance lease cost	368
Variable lease cost	2,797
Total lease cost	\$ 12,416

Other information related to leases was as follows:

In thousands	Year Ended December 31, 2019	
<b>Supplemental Cash Flows Information</b>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	17,986
Operating cash flows from finance leases		66
Financing cash flows from finance leases		461
<b>Weighted Average Remaining Lease term</b>		
Operating leases		3.29
Finance leases		3.15
<b>Weighted Average Discount Rate</b>		
Operating leases		4.71%
Finance leases		6.81%

The maturities of the Company's finance and operating lease liabilities as of December 31, 2019 are as follows:

In thousands	Operating Leases		Finance Leases	
<b>Year Ending December 31,</b>				
2020	\$	7,934	\$	431
2021		5,838		238
2022		3,957		189
2023		2,193		151
2024		1,274		35
2025		123		—
Total future minimum lease payments		21,319		1,044
Less: Imputed interest		1,579		90
Total lease liabilities	\$	19,740	\$	954

As previously disclosed in our 2018 10-K and under the previous lease accounting standard, ASC 840, *Leases*, the total commitment for non-cancelable operating and finance leases was \$35.0 million and \$1.4 million as of December 31, 2018:

In thousands	Operating Leases		Finance Leases	
<b>Year Ending December 31,</b>				
2019	\$	9,645	\$	748
2020		8,815		307
2021		7,425		131
2022		5,456		133
2023		2,349		104
Thereafter		1,328		—
Total future minimum lease payments	\$	35,018	\$	1,423

As of December 31, 2019, we have one additional operating lease that has not yet commenced.

## **Note E - Convertible Preferred Stock**

Our Amended and Restated Certificate of Incorporation authorizes us to issue 1.0 million shares of preferred stock ("Preferred Stock"). On January 30, 2018, we issued 9,926 shares of our Series A Preferred Stock to Wipro, LLC (as further described in Note A above under the heading "Securities Purchase Agreement") at an issue price of \$1.00 per share, for gross proceeds of \$9.9 million pursuant to a Certificate of Designation filed with the State of Delaware on January 29, 2018. We incurred \$0.2 million of transaction fees in connection with the issuance of the Series A Preferred Stock which are netted against the gross proceeds of \$9.9 million on our Consolidated Financial Statements.

Series A Preferred Stock has the following rights and privileges:

### **Liquidation Rights**

In the event of a liquidation, dissolution or winding down of the Company or a Fundamental Transaction (defined in the Certificate of Designation for the Series A Preferred Stock), whether voluntary or involuntary, the holders of the Series A Preferred Stock are entitled to receive, prior to and in preference to the holders of common stock, from the assets of the Company available for distribution, an amount equal to the greater of (i) the original issue price, plus any dividends accrued but unpaid thereon, and (ii) such amount per share as would have been payable had all shares of Series A Preferred Stock been converted into Common Stock immediately before such liquidation.

Upon liquidation, after the payment of all preferential amounts required to be paid to the holders of Series A Preferred Stock, the remaining assets of the Company available for distribution to its stockholders shall be distributed among the holders of Common Stock.

### **Dividends**

Upon liquidation, dissolution or winding down of the Company, or a Fundamental Transaction, shares of Series A Preferred Stock which have not been otherwise converted to Common Stock, shall be entitled to receive dividends that accrue at a rate of (i) 5% each year, or (ii) the rate that cash dividends were paid in respect of common stock (with Series A Preferred Stock being paid on an as-converted basis in such case) for such year if such rate is greater than 5.0%. Dividends on the Series A Preferred Stock are cumulative and accrue to the holders thereof whether or not declared by the Board of Directors. Dividends are payable solely upon a Liquidation (as defined in the Certificate of Designation), and only if prior to such Liquidation such shares of Series A Preferred Stock have not been converted to Common Stock. As of December 31, 2019, cumulative dividends payable to the holders of Series A Preferred Stock upon a Liquidation totaled \$1.0 million or \$96.0 per share of Series A Preferred Stock.

### **Conversion**

At the option of the holders of Series A Preferred Stock, shares of Series A Preferred Stock may be converted into Common Stock at a rate of 100.91 shares of Common Stock for one share of Series A Preferred Stock, subject to certain future adjustments.

### **Voting and Other Rights**

The Series A Preferred Stock does not have voting rights, except as otherwise required by law. Other rights afforded the holders of Series A Preferred Stock, under defined circumstances, include the election and removal of one member of the Board of Directors as a separate voting class, the ability to approve certain actions of the Company prior to execution, and preemptive rights to participate in any future issuances of new securities. In addition, under certain circumstances, the holder of the Series A Preferred Stock is entitled to appoint an observer to our Board of Directors. The holder of the Series A Preferred Stock has elected to exercise its observer appointment rights but not its right to appoint the board member.

We determined that the Series A Preferred Stock has contingent redemption provisions allowing redemption by the holder upon certain defined events. As the event that may trigger the redemption of the Series A Preferred Stock is not solely within our control, the Series A Preferred Stock is classified as mezzanine equity (temporary equity) in the Consolidated Balance Sheet as of December 31, 2019.

## **Note F — Long-Term Debt**

As of December 31, 2019 and 2018, we had \$18.7 million and \$14.2 million of borrowing outstanding under the Texas Capital Facility (as defined herein). As of December 31, 2019, we had the ability to borrow an additional \$1.6 million under the facility,

### **Credit Facilities**

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") and letters of credit issued by Texas Capital Bank up to \$5 million. The Texas Capital Credit Facility is being used for general corporate purposes. The Texas Capital Credit Facility is secured by substantially all of the Company's assets and its domestic subsidiaries. The Texas Capital Credit Facility 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).

Under the Texas Capital Credit Facility, we can elect to accrue interest on outstanding principal balances at either LIBOR plus 1.95% or prime plus 0.75%. Unused commitment balances accrue interest at 0.50%. We are required to pay a quarterly fee of \$0.1 million as consideration for the guarantee provided by HHS Guaranty, LLC.

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. The Company has been in compliance of all the requirements.

The Texas Capital Credit Facility originally had an expiration date of April 17, 2019, at which point all outstanding amounts would have been due. 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. On May 7, 2019, we entered into an amendment

to the Texas Capital Credit Facility which further extended the maturity of the facility by one year to April 17, 2021. The Texas Capital Credit Facility remains secured by substantially all of our assets and continues to be guaranteed by HHS Guaranty, LLC.

At December 31, 2019, we had letters of credit outstanding in the amount of \$2.8 million. No amounts were drawn against these letters of credit at December 31, 2019. These letters of credit exist to support insurance programs relating to workers' compensation, automobile, and general liability.

Cash payments for interest were \$0.9 million and \$0.2 million for the years ended December 31, 2019 and 2018, respectively.

### **Note G — 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 (Loss) Income. For the years ended December 31, 2019 and 2018, we recorded total stock-based compensation expense (income) from operations of \$1.1 million and \$(0.6) million, respectively.

We granted equity awards to our Chief Executive Officer, Chief Financial Officer and Chief Operations Officer in 2019 and 2018, 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. In August 2018, we filed S-8 to increase the total registered shares under 2013 Plan to 553,673 shares. As of December 31, 2019 and 2018, there were 18.1 thousand and 0.2 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 70 thousand shares granted under 2013 Plan awards were outstanding at December 31, 2019, with exercise prices ranging from \$1.57 to \$119.00 per share. There is no option outstanding to purchase inducement awards at December 31, 2019.

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 56 thousand shares were outstanding under the 2005 Plan as of December 31, 2019, with exercise prices ranging from \$9.70 to \$123.10 per share.

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 former 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). However, following the August 2018 resignation of our former CEO, her unvested stock option was forfeited according to her separation agreement with the Company and resulted in \$0.1 million credit to stock compensation expense.



The following summarizes all stock option activity during the years ended December 31, 2019 and 2018:

In thousands	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Thousands)
Options outstanding at December 31, 2017	308,967	\$ 60.80		
Granted in 2018	14,821	7.40		
Exercised in 2018	—	—		—
Unvested options forfeited in 2018	(61,286)	37.13		
Vested options expired in 2018	(91,133)	68.28		
Options outstanding at December 31, 2018	171,369	\$ 60.66		
Granted in 2019	31,906	1.57		
Exercised in 2019	—	—		—
Unvested options forfeited in 2019	(25,392)	10.00		
Vested options expired in 2019	(51,187)	59.84		
Options outstanding at December 31, 2019	126,696	\$ 57.48	5.21	—
Vested and expected to vest at December 31, 2019	126,696	\$ 57.48	5.21	—
Exercisable at December 31, 2019	83,674	\$ 85.45	3.08	—

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, 2019. The pre-tax intrinsic value is the difference between the closing price of our common stock on December 31, 2019 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, 2019:

Range of Exercise Prices	Number Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number Exercisable	Weighted-Average Exercise Price
\$ 1.57 - 7.40	46,727	\$ 3.42	9.32	3,705	\$ 7.40
\$ 9.70 - 72.50	4,000	72.50	2.72	4,000	72.50
\$ 76.80 - 119.00	73,569	88.86	2.87	73,569	88.86
\$ 123.10 - 123.10	2,400	123.10	1.10	2,400	123.10
	126,696	\$ 57.48	5.21	83,674	\$ 85.45

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 2019 and 2018:

	Year Ended December 31,	
	2019	2018
Expected term (in years)	5.50	5.23
Expected stock price volatility	40.53%	55.07%
Risk-free interest rate	1.86%	2.96%

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.

The weighted-average fair value of options granted during 2019 and 2018 was \$1.67 and \$3.55, respectively. As of December 31, 2019, there was \$0.1 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 1.74 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 and expire after 10 years. 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, 2019:

	Number of Units	Weighted- Average Grant Price	Weighted-Average Remaining Contractual Term (Years)
Cash stock appreciation rights outstanding at December 31, 2017	86,618	\$ 9.70	9.48
Granted in 2018	—	—	
Exercised in 2018	—	—	
Expired in 2018	(11,090)	9.70	
Forfeited in 2018	(62,852)	9.70	
Cash stock appreciation rights outstanding at December 31, 2018	12,676	\$ 9.70	8.48
Granted in 2019	—	—	
Exercised in 2019	—	—	
Expired in 2018	—	—	
Forfeited in 2019	—	—	
Cash stock appreciation rights outstanding at December 31, 2019	12,676	\$ 9.70	7.48
Vested balance at December 31, 2019	6,338	\$ 9.70	7.48

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, 2019, there was no unrecognized compensation cost related to unvested cash stock appreciation right grants.

## Restricted Stock Units

Restricted stock units granted as inducement awards or under the 2013 Plan vest in three equal increments on the first three anniversaries of their date of grant. Restricted stock units settle in treasury stock and are treated as equity. Outstanding restricted stock units 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).

The following summarizes all restricted stock units' activity during 2019 and 2018:

	Number of Shares	Weighted- Average Grant Date Fair Value
Unvested shares outstanding at December 31, 2017	201,222	\$ 15.23
Granted in 2018	72,549	9.51
Vested in 2018	(56,219)	19.28
Forfeited in 2018	(110,137)	14.54
Unvested shares outstanding at December 31, 2018	107,415	\$ 9.98
Granted in 2019	383,569	3.26
Vested in 2019	(39,858)	9.65
Forfeited in 2019	(22,835)	10.07
Unvested shares outstanding at December 31, 2019	428,291	\$ 3.99

The fair value of each restricted stock unit 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, 2019, there was \$1.1 million of total unrecognized compensation cost related to restricted stock units. This cost is expected to be recognized over a weighted average period of approximately 1.69 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 2019 and 2018:

	Number of Units	Weighted- Average Grant Date Fair Value
Phantom stock units outstanding at December 31, 2017	82,037	\$ 15.92
Granted in 2018	—	—
Vested in 2018	(19,992)	17.85
Forfeited in 2018	(29,234)	16.32
Phantom stock units outstanding at December 31, 2018	32,811	\$ 14.39
Granted in 2019	—	—
Vested in 2019	(11,449)	16.01
Forfeited in 2019	(6,542)	13.49
Phantom stock units outstanding at December 31, 2019	14,820	\$ 13.55

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, 2019, there was \$48 thousand of total unrecognized compensation cost related to phantom stock units. This cost is expected to be recognized over a weighted average period of approximately 1.30 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 2019 and 2018:

	Number of Units	Weighted- Average Grant- Date Fair Value
Performance stock units outstanding at December 31, 2017	163,060	\$ 15.59
Granted in 2018	11,904	8.40
Settled in 2018	—	—
Forfeited in 2018	(136,435)	16.40
Performance stock units outstanding at December 31, 2018	38,529	\$ 10.50
Granted in 2019	417,035	2.67
Settled in 2019	—	—
Forfeited in 2019	(247,635)	3.36
Performance stock units outstanding at December 31, 2019	207,929	\$ 3.27

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, 2019, there was \$0.5 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 6.60 years.

## 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 2019 and 2018:

	Number of Shares	Weighted- Average Grant- Date Fair Value
Cash performance stock units outstanding at December 31, 2017	150,506	\$ 14.63
Granted in 2018	—	—
Settled in 2018	—	—
Forfeited in 2018	(146,728)	14.32
Cash performance stock units outstanding at December 31, 2018	3,778	\$ 26.90
Granted in 2019	—	—
Settled in 2019	—	—
Forfeited in 2019	(3,778)	26.90
Cash performance stock units outstanding at December 31, 2019	—	\$ —

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, 2019, there was no unrecognized compensation cost related to cash performance stock units.

#### **Note H — Employee Benefit Plans**

Prior to January 1, 1999, we provided a defined benefit pension plan for 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:

In thousands	Year Ended December 31,	
	2019	2018
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 171,761	\$ 187,036
Interest cost	7,254	6,740
Actuarial (gain) loss	21,174	(12,021)
Benefits paid	(10,382)	(9,994)
Benefit obligation at end of year	\$ 189,807	\$ 171,761
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	107,862	126,013
Actual return on plan assets	16,742	(9,847)
Contributions	3,870	1,690
Benefits paid	(10,382)	(9,994)
Fair value of plan assets at end of year	\$ 118,092	\$ 107,862
Funded status at end of year	\$ (71,715)	\$ (63,899)

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

In thousands	2019	2018
Other current liabilities	\$ 1,715	\$ 1,685
Pensions	70,000	62,214
Total	\$ 71,715	\$ 63,899

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

In thousands	2019	2018
Net loss	\$ 63,887	\$ 46,584

Based on current estimates, we will be required to make \$6.4 million contributions to our Qualified Pension Plan in 2020.

We are not required to make and do not intend to make any contributions to our Restoration Pension Plan in 2020 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 2020.

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

In thousands	2019	2018
Projected benefit obligation	\$ 189,807	\$ 171,761
Accumulated benefit obligation	\$ 189,807	\$ 171,761
Fair value of plan assets	\$ 118,092	\$ 107,862

The Restoration Pension Plan had an accumulated benefit obligation of \$27.6 million and \$25.3 million at December 31, 2019 and 2018, respectively.

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

In thousands	Year Ended December 31,	
	2019	2018
<b>Net Periodic Benefit Cost (Pre-Tax)</b>		
Service cost	\$ —	\$ —
Interest cost	\$ 7,254	\$ 6,740
Expected return on plan assets	(4,446)	(6,094)
Recognized actuarial loss	2,930	2,754
Net periodic benefit cost	5,738	3,400
<b>Amounts Recognized in Other Comprehensive (Loss) income (Pre-Tax)</b>		
Net loss	5,948	1,166
Net cost recognized in net periodic benefit cost and other comprehensive (Loss) income	\$ 11,686	\$ 4,566

The components of net periodic benefit costs other than the service cost component are included in Other, net in our Consolidated Statement of Comprehensive (Loss) income. 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 2020 is \$3.6 million. The period over which the net loss from the Qualified Pension Plan is amortized into net periodic benefit cost was the average future lifetime of all participants (approximately 19.7 years). The Qualified Pension Plan is frozen and 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,	
	2019	2018
<b>Weighted-average assumptions used to determine net periodic benefit cost</b>		
Discount rate	4.35%	3.67%
Expected return on plan assets	4.25%	5.00%

	December 31,	
	2019	2018
<b>Weighted-average assumptions used to determine benefit obligations</b>		
Discount rate	3.20%	4.35%

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, 2019 and 2018, by asset category, are as follows:

In thousands	2019	%	2018	%
Equity securities	\$ 68,563	58%	\$ 71,384	66%
Debt securities	43,622	37%	22,134	21%
Other	5,907	5%	14,344	13%
Total plan assets	\$ 118,092	100%	\$ 107,862	100%

The fair values presented have been prepared using values and information available as of December 31, 2019 and 2018.

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

In thousands	December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 68,563	\$ 68,563	\$ —	\$ —
Debt securities	43,622	39,380	4,242	—
Total investments, excluding investments valued at NAV	112,185	107,943	4,242	—
Investments valued at NAV <sup>(1)</sup>	5,907	—	—	—
Total plan assets	\$ 118,092	\$ 107,943	\$ 4,242	\$ —

In thousands	December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 71,384	\$ 71,384	\$ —	\$ —
Debt securities	22,134	22,134	—	—
Total investments, excluding investments valued at NAV	93,518	93,518	—	—
Investments valued at NAV <sup>(1)</sup>	14,344	—	—	—
Total plan assets	\$ 107,862	\$ 93,518	\$ —	\$ —

(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
Equities	65.0%	50% - 70%	
U.S. Large Cap	30.0%	20% - 40%	S&P 500 TR
U.S. Mid Cap	10.0%	0% - 15%	Russell Mid Cap Index TR
U.S. Small Cap	5.0%	0% - 10%	Russell 2000 TR
International - Developed	15.0%	0% - 25%	MSCI World ex US Net
Emerging Markets	5.0%	0% 8%	MSCI EMF TR Net EmrgMrkts
Fixed Income	35.0%	1% - 40%	BBG BARC US Aggregate Bond Index
Investment Grade	35.0%	1% - 40%	
International Developed Bonds	0%	0% 5%	
High Yield	0%	0% 5%	

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, 2019 are as follows:

In thousands	
2020	\$ 10,414
2021	10,628
2022	10,967
2023	11,245
2024	11,378
2025-2029	57,995
<b>Total</b>	<b>\$ 112,627</b>

We also sponsored a 401(k) - retirement plan in which we matched a portion of employees' voluntary before-tax contributions prior to 2018. Under this plan, both employee and matching contributions vest immediately. We stopped this 401(k) match program in 2018. Total 401(k) expense for these matching payments recognized was \$0.0 million and \$0.4 million for years ending December 31, 2019 and 2018.

### **Note I — Income Taxes**

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

In thousands	Year Ended December 31,	
	2019	2018
<b>Current</b>		
Federal	\$ 216	\$ (18,194)
State and local	504	314
Foreign	37	1,413
<b>Total current</b>	<b>\$ 757</b>	<b>\$ (16,467)</b>
<b>Deferred</b>		
Federal	\$ 623	\$ (470)
State and local	(96)	(181)
Foreign	469	(994)
<b>Total deferred</b>	<b>\$ 996</b>	<b>\$ (1,645)</b>
<b>Total income tax expense (benefit)</b>	<b>\$ 1,753</b>	<b>\$ (18,112)</b>

The U.S. and foreign components of loss before income taxes were as follows:

In thousands	Year Ended December 31,	
	2019	2018
United States	\$ (29,003)	\$ (4,873)
Foreign	4,492	4,311
<b>Total loss from operations before income taxes</b>	<b>\$ (24,511)</b>	<b>\$ (562)</b>

The differences between total income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate of 21% to (loss) income before income taxes were as follows:

In thousands	Year Ended December 31,	
	2019	2018
Computed expected income tax benefit	\$ (5,147)	\$ (118)
Basis difference on sale of 3Q Digital	—	(11,937)
Net effect of state income taxes	(509)	(388)
Foreign subsidiary dividend inclusions	1,083	2,781
Foreign tax rate differential	(268)	189
Change in valuation allowance	6,085	3,383
Loss from deemed liquidation of foreign subsidiary	—	(4,242)
Rate Benefit from Carryback of Capital Loss	—	(6,452)
Stock-based compensation shortfalls	238	437
Return to Provision	216	(1,835)
Other, net	55	70
Income tax expense (benefit) for the period	\$ 1,753	\$ (18,112)

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

In thousands	Year Ended December 31,	
	2019	2018
(Loss) Income from operations	\$ 1,753	\$ (18,112)
Stockholders' equity	—	—
Total	\$ 1,753	\$ (18,112)

The U.S. Tax Cuts and Jobs Act (the "Tax Reform Act") was enacted on December 22, 2017. The legislation significantly changed U.S. tax law by, among other things, lowering the corporate income tax rate from 35% to 21%, implementing a territorial tax system and imposing a one-time repatriation tax on deemed repatriated earnings of foreign subsidiaries. We applied the guidance in the SAB 118 when accounting for the enactment-date effects of the Tax Reform Act in 2017 and throughout 2018. At December 31, 2018, we completed our accounting for all the enactment-date income tax effects of the Tax Reform Act. We did not record any adjustments to our provisional amounts in the year ended December 31, 2018.

The Tax Reform Act subjects a U.S. shareholder to tax on Global Intangible Low Tax Income (GILTI) earned by certain foreign subsidiaries. The FASB Staff Q&A Topic 740, No. 5 "Accounting for Global Intangible Low-Taxed Income", states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. We elected to account for GILTI as a current period expense when incurred.

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

In thousands	Year Ended December 31,	
	2019	2018
<b>Deferred tax assets</b>		
Deferred compensation and retirement plan	\$ 18,067	\$ 16,179
Accrued expenses not deductible until paid	2,331	1,584
Lease liability	4,217	—
Employee stock-based compensation	736	780
Accrued payroll not deductible until paid	196	428
Accounts receivable, net	156	100
Investment in foreign subsidiaries, outside basis difference	1,336	1,322
Goodwill	649	710
Other, net	156	142
Foreign net operating loss carryforwards	2,364	3,042
State net operating loss carryforwards	4,387	3,776
Foreign tax credit carryforwards	3,653	3,653
Federal net operating loss carryforwards	5,394	2,507
<b>Total gross deferred tax assets</b>	<b>43,642</b>	<b>34,223</b>
Less valuation allowances	(38,379)	(31,170)
<b>Net deferred tax assets</b>	<b>\$ 5,263</b>	<b>\$ 3,053</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	\$ (1,159)	\$ (1,689)
Right-of-use asset	(3,785)	—
Prepaid Expenses	(279)	(331)
Other, net	(284)	(281)
<b>Total gross deferred tax liabilities</b>	<b>(5,507)</b>	<b>(2,301)</b>
<b>Net deferred tax (liabilities) assets</b>	<b>\$ (244)</b>	<b>\$ 752</b>

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

In thousands	
Balance at December 31, 2017	\$ 28,350
Deferred Income Tax Expense	3,383
Return to Provision Impact	(854)
Other Comprehensive Income	291
<b>Balance at December 31, 2018</b>	<b>\$ 31,170</b>
Deferred Income Tax Expense	6,086
Return to Provision Impact	(364)
Other Comprehensive Income	1,487
<b>Balance at December 31, 2019</b>	<b>\$ 38,379</b>

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 \$38.4 million and \$31.2 million at December 31, 2019 and 2018, respectively. 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. state returns, we are no longer subject to tax examinations for years prior to 2014. For U.S. federal and foreign returns, we are no longer subject to tax examinations for years prior to 2016.

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

<b>In thousands</b>	
Balance at December 31, 2017	\$ 206
Settlements	(206)
Balance at December 31, 2018	\$ —
Settlements	—
Balance at December 31, 2019	\$ —

There is no balance of unrecognized tax benefits as of December 31, 2019. Any adjustments to this liability as a result of the finalization of audits or potential settlements would not be material.

Effective January 1, 2019 we adopted ASU 2018-02 which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the reduction of the U.S. federal statutory income tax rate from 35% to 21% due to the enactment of the Tax Reform Act. As a result of the adoption, we reclassified \$11.4 million of stranded tax effects from accumulated other comprehensive income to retained earnings.

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, 2019 and 2018. We did not have any interest and penalties accrued at December 31, 2019 or 2018.

For U.S. tax return purposes, net operating losses and tax credits are normally available to be carried forward to future years, subject to limitations as discussed below. As of December 31, 2019, the Company has federal net operating loss carryforward of \$25.7 million, of which the entire amount is not subject to expiration due to the change in carryforward periods as a result of the U.S. Tax Act. Federal Foreign tax carryforward credit of \$3.7 million will expire on various dates from 2023 to 2026.

Deferred income taxes have not been provided on the undistributed earnings of our foreign subsidiaries as these earnings have been, and under current plans will continue to be, permanently reinvested in these subsidiaries. It is not practicable to estimate the amount of additional taxes which may be payable upon the distribution of these earnings. However, because of the provisions in the Tax Reform Act, the tax cost of repatriation is immaterial and limited to foreign withholding taxes, currency translation and state taxes.

#### **Note J — (Loss) Earnings Per Share**

In periods in which the company has net income, the company is required to calculate earnings (loss) per share (“EPS”) using the two-class method. The two-class method is required because the company’s preferred stock is considered a participating security with objectively determinable and non-discretionary dividend participation rights. Preferred stockholders have the right to participate in dividends above their five percent dividend rate should the company declare dividends on its Common Stock at a dividend rate higher than the five percent (on an as-converted basis). Under the two-class method, undistributed and distributed earnings are allocated on a pro-rata basis to the common and the preferred stockholders. The weighted-average number of common and preferred stock 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.

Reconciliations of basic and diluted EPS are as follows:

In thousands, except per share amounts	Year Ended December 31,	
	2019	2018
<b>Numerator:</b>		
Net (loss) income	\$ (26,264)	\$ 17,550
Less: Preferred stock dividend	496	457
Less: Earnings attributable to participating securities	—	2,202
Numerator for basic EPS: (loss) income attributable to common stockholders	(26,760)	14,891
<b>Effect of dilutive securities:</b>		
Add back: Allocation of earnings to participating securities	—	2,202
Less: Re-allocation of earnings to participating securities considering potentially dilutive securities	—	(2,191)
Numerator for diluted EPS	\$ (26,760)	\$ 14,902
<b>Denominator:</b>		
Basic EPS denominator: weighted-average common shares outstanding	6,284	6,237
<b>Effect of dilutive securities:</b>		
Unvested shares	—	33
Diluted EPS denominator	6,284	6,270
Basic earnings (loss) per common share	\$ (4.26)	\$ 2.39
Diluted earnings (loss) per common share	\$ (4.26)	\$ 2.38

For the purpose of calculating the shares used in the diluted EPS calculations, 0.1 million and 0.2 million anti-dilutive options have been excluded from the EPS calculations for the years ended December 31, 2019 and 2018. 0.2 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, 2019 and 2018, respectively.

#### **Note K — Comprehensive (Loss) Income**

Comprehensive (loss) income for a period encompasses net (loss) income and all other changes in equity other than from transactions with our stockholders.

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, 2017	\$ (45,418)	\$ 1,115	\$ (44,303)
Other comprehensive loss, net of tax, before reclassifications	—	(1,014)	(1,014)
Amounts reclassified from accumulated other comprehensive income, net of tax	(1,166)	—	(1,166)
Net current period other comprehensive loss, net of tax	(1,166)	(1,014)	(2,180)
Balance at December 31, 2018	\$ (46,584)	\$ 101	\$ (46,483)
Other comprehensive income, net of tax, before reclassifications	—	652	652
Amounts reclassified from accumulated other comprehensive (loss) income, net of tax	(5,948)	—	(5,948)
Adoption of ASU 2018-2	(11,355)	—	(11,355)
Net current period other comprehensive (loss) income, net of tax	(17,303)	652	(16,651)
Balance at December 31, 2019	\$ (63,887)	\$ 753	\$ (63,134)

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

#### **Note L — Litigation and Contingencies**

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 thereunder; accordingly, our actual aggregate maximum exposure related to these types of commitments is not reasonably estimable. 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 consolidated financial statements.

We are also subject to various claims and legal proceedings in the ordinary course of conducting our businesses and, from time to time, we may become involved in additional claims and lawsuits incidental to our businesses. We routinely assess the likelihood of adverse judgments or outcomes to these matters, as well as ranges of probable losses; to the extent losses are reasonably estimable. Accruals are recorded for these matters to the extent that management concludes a loss is probable and the financial impact, should an adverse outcome occur, is reasonable estimable.

In the opinion of management, appropriate and adequate accruals for legal matters have been made, and management believes that the probability of a material loss beyond the amounts accrued is remote. Nevertheless, we cannot predict the impact of future developments affecting our pending or future claims and lawsuits. 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 M — Disposition**

On February 28, 2018, we sold our 3Q Digital Inc. subsidiary (“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 (“Contingent Payment”) if the 3Q Digital business is sold again (provided certain value thresholds are met) (“Qualified Sale”). The \$35 million contingent consideration obligation of the Company that related to our acquisition of 3Q Digital in 2015 was assigned to the buyer, thereby relieving us of the obligation. In addition, the identified intangible assets with definite lives for client relationships and non-compete agreements were written-off as a component of the gain on sale.

The 3Q Digital business represented less than 10% of our total 2017 revenues. As a result of the sale, the company recognized a pre-tax gain of \$31.0 million in the first quarter of 2018. The assets of 3Q Digital included net intangible assets and the liabilities (including contingent consideration) were removed from our balance sheet as a result of the disposition.

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

(in thousands)	Fair Value
Accrued contingent consideration liability as of December 31, 2017	\$ 33,887
Accretion of interest	742
Disposition	(34,629)
Accrued earnout liability as of December 31, 2018	\$ —

On May 7, 2019, we received the \$5 million Contingent Payment related to the Qualified Sale of 3Q Digital as defined in the Purchase and Sale Agreement dated February 28, 2018.

#### **Note N — Certain Relationships and Related Party Transactions**

Since 2016, we have conducted (and we continue to conduct) business with Wipro, LLC (“Wipro”), whereby Wipro provides us with a variety of technology-related services, including database and software development, database support and analytics, IT infrastructure support, leased facilities and digital campaign management. Additionally, we also provide Wipro with agency services and consulting services.

Effective January 30, 2018, Wipro became a related party when it purchased 9,926 shares of our Series A Preferred Stock (which are convertible at Wipro's option into 1,001,614 shares, or 16% of our Common Stock), for aggregate consideration of \$9.9 million. For information pertaining to the Company's preferred stock, See Note E, *Convertible Preferred Stock*.

During the years ended December 31, 2019 and 2018, we recorded an immaterial amount of revenue for services we provided to Wipro.

During the years ended December 31, 2019 and 2018, we recorded \$11.7 million and \$12.3 million of expense, respectively, in technology-related services and lease expense for a facility Wipro provided to us.

During the years ended December 31, 2019 and 2018, we capitalized \$1.7 million of costs (\$1.4 million of which was included in the asset impairment charge for the year ended December 31, 2019) and \$2.3 million (\$2.1 million of which was included in the asset impairment charge for the year ended December 31, 2018), respectively, for internally developed software services received from Wipro. These remaining capitalized costs are included in Other Assets on the Consolidated Balance Sheet as of December 31, 2019.

As of December 31, 2019 and 2018, we had a trade payable due to Wipro of \$1.5 million and \$5.0 million, respectively. As of December 31, 2019 and 2018, we had an immaterial amount in trade receivables due from Wipro.

In the third quarter of 2019, we entered a business relationship with Snap Kitchen, the founder of which is a 7% owner of Harte Hanks. We recorded a nominal amount of revenue with them in the year ended December 31, 2019.

As described in Note F, *Long-Term Debt*, the Company's Texas Capital Credit Facility is secured by HHS Guaranty, LLC, an entity formed to provide credit support for the Company by certain members of the Shelton family (descendants of one of our founders). Pursuant to the Amended and Restated Fee, Reimbursement and Indemnity Agreement, dated January 9, 2018, between HHS Guaranty, LLC and the Company, HHS Guaranty, LLC has the right to appoint one representative director to the Board of Directors. Currently, David L. Copeland serves as the HHS Guaranty, LLC representative on the Board of Directors.

## **Note O — Restructuring Activities**

Our management team along with members of the Board have formed a project committee focused on our cost-saving initiatives and other restructuring efforts. This committee has reviewed each of our business lines and other operational areas to identify both one-time and recurring cost-saving opportunities.

In the year ended December 31, 2019, we recorded restructuring charges of \$11.8 million. This comprised charges mainly related to customer database build write offs, termination fees related to certain contracts with Wipro, severance agreements, asset impairment and facility related expense. One of the larger initiatives to combine sub-scale production environments received Board approval on August 1, 2019. This resulted in the closing of three production facilities by the end of 2019 and consolidating the work currently performed at these facilities into other production facilities.

The following table summarizes the restructuring charges which are recorded in "Restructuring Expense" in the Consolidated Statement of Comprehensive (Loss) Income.

<b>In thousands</b>	<b>Year Ended December 31, 2019</b>	
Customer database build write off	\$	4,036
Contract termination fee		3,101
Severance		2,098
Facility, asset impairment and other expense		2,564
Total	\$	11,799

The following table summarizes the changes in liabilities related to restructuring activities:

<b>In thousands</b>	<b>Year Ended December 31, 2019</b>				
	Contract Termination Fee	Severance	Facility, asset impairment and other expense	Total	
Beginning balance:	\$ —	\$ —	\$ —	\$ —	\$ —
Additions:	3,101	2,168	786		6,055
Payments	(1,610)	(1,738)	(786)		(4,134)
Ending balance:	\$ 1,491	\$ 430	\$ —	\$ —	\$ 1,921

We expect that in connection with our cost-saving and restructuring initiatives, we will incur total restructuring charges of approximately \$14.0 million through 2020.

## 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
<b>Acquisition and Dispositions</b>	
2.1	<a href="#"><u>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)</u></a>
2.2	<a href="#"><u>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)</u></a>
<b>Charter Documents</b>	
3(a)	<a href="#"><u>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).</u></a>
3(b)	<a href="#"><u>Fifth Amended and Restated Bylaws (filed as Exhibit 3.1 to the company's Form 8-K dated December 23, 2015).</u></a>
3(c)	<a href="#"><u>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).</u></a>
3(d)	<a href="#"><u>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).</u></a>
<b>Credit Agreements</b>	
10.1(a)	<a href="#"><u>Credit Agreement dated April 17, 2017, with Texas Capital Bank, N.A., as lender (filed as Exhibit 10.1 to the company's form 8-K dated April 21, 2017).</u></a>
10.1(b)	<a href="#"><u>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).</u></a>
10.1(c)	<a href="#"><u>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).</u></a>
10.1(d)	<a href="#"><u>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).</u></a>
10.1(e)	<a href="#"><u>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).</u></a>
10.1(f)	<a href="#"><u>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).</u></a>
<b>Management and Director Compensatory Plans and Forms of Award Agreements</b>	
10.2(a)	<a href="#"><u>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).</u></a>
10.2(b)	<a href="#"><u>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).</u></a>
10.2(c)	<a href="#"><u>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).</u></a>
10.2(d)	<a href="#"><u>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).</u></a>
10.2(e)	<a href="#"><u>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).</u></a>



- 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 2013 Omnibus Incentive Plan Performance Restricted Stock Unit Award Agreement](#)
- 10.2(o) [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(p) [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(q) [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(r) [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(s) [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(t) [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) [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 (d) [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 (e) [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(f) [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(g) [Separation Agreement dated August 28, 2018 between the company and Karen Puckett \(filed as 8-K dated August 28, 2018](#)
- 10.3(h) [Employment Agreement between the company and Andrew Bennett dated November 19, 2019 \(filed as Form 8-K, dated November 19, 2019\).](#)
- 10.3(i) [Promotion Agreement between the company and Andrew Harrison dated January 4, 2019 \(filed as Form 8-K, dated January 7, 2019\).](#)
- 10.3(j) [Employment Agreement between the company and Mark Del Priore dated January 16, 2019 \(filed as Form 8-K, dated January 17, 2019\).](#)
- 10.3(k) [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. \(filed as Exhibit 10.1 to the company's Form 8-K dated July 19, 2017\)](#)
- 10.4 (b) [Cooperation Agreement dated as of May 17, 2018, by and between Harte Hanks, Inc. Houston H. Harte, Sarah Harte, Carolyn Harte, Larry D. Franklin and the Franklin Family Foundation \(filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated May 17, 2018\).](#)

#### **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.](#)
- \*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.

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\*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<sup>nd</sup> 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. SERVICES AND MATERIALS TO BE PROVIDED BY SUPPLIER**

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. REPRESENTATIVES**

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. TERM/TERMINATION**

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. COMPENSATION/ESTIMATES/INVOICING/TAXES**

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. **Invoicing.** 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 MERCHANTABILITY, 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. AUDIT**

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. FORCE MAJEURE**

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. MEDIATION**

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. NON-EXCLUSIVE SERVICES**

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. ASSIGNMENT AND SUBCONTRACTING**

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. ASSIGNMENT BY COMPANY**

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. SURVIVAL OF OBLIGATIONS**

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 LIABILITY, IDENTIFICATION and WARRANTY clauses.

#### **XXII. ENTIRE AGREEMENT**

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. GOVERNING LAW**

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. IDENTIFICATION/PUBLICITY**

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](mailto: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.



**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: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
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 22<sup>nd</sup> 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, 2019

Name of Entity	Jurisdiction of	Organization % Owned
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%(7)
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.
- (7) 75% Owned by Harte Hanks, Inc.  
25% Owned by Harte Hanks Tranquility Limited

**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, 333-189781, 333-227325 and 333-227326 on Form S-8 of our report dated March 18, 2019, relating to the consolidated financial statements as of, and for the year ended, December 31, 2018 of Harte Hanks, Inc. and subsidiaries (which report expresses an unqualified opinion and includes an explanatory paragraph relating to Harte Hanks, Inc.'s adoption of a new accounting standard), appearing in this Annual Report on Form 10-K of Harte Hanks Inc. for the year ended December 31, 2019.

/s/ DELOITTE & TOUCHE LLP

San Antonio, Texas  
March 19, 2020

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

I, Andrew Benett, Executive Chairman 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 officer 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 most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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 function):
  - 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 controls over financial reporting.

March 19, 2020

Date

/s/ Andrew Benett

Andrew Benett

Executive Chairman and Chief Executive Officer

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

I, Laurilee Kearnes, Vice President and Chief Financial Officer of Harte Hanks, Inc. (the "Company"), hereby 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 officer 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 most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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 function):
  - 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 controls over financial reporting.

March 19, 2020

Date

/s/ Laurilee Kearnes

Laurilee Kearnes

Vice President and Chief Financial Officer

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

I, Andrew Benett, Executive Chairman 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, 2019 and filed with the Securities and Exchange Commission on the date hereof pursuant to Section 13(a) 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 19, 2020

Date

/s/ Andrew Benett

Andrew Benett

Executive Chairman 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.



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

I, Laurilee Kearnes, 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, 2019 and filed with the Securities and Exchange Commission on the date hereof pursuant to Section 13(a) 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 19, 2020

Date

/s/ Laurilee Kearnes

Laurilee Kearnes

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.