

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, 2022

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)

1 Executive Drive, Chelmsford, MA 01824
(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	NASDAQ

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 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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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 whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

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 (\$12.74) as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2022), was approximately \$71,223,632.

The number of shares outstanding of each of the registrant's classes of common stock as of March 15, 2023 was 7,419,575 shares of common stock, all of one class.

Documents incorporated by reference:

Portions of the Proxy Statement to be filed for the company's 2022 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.

Harte Hanks, Inc. and Subsidiaries
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Form 10-K Report
December 31, 2022

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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 and Section 21E of the Exchange Act. Forward-looking statements will also be included from time to time 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 actions designed to respond to market conditions and improve our performance, (2) our financial outlook for revenues, earnings per share, operating income, expense related to equity-based compensation, capital resources and other financial items, if any, (3) 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, (4) competitive factors, (5) acquisition and development plans, (6) expectations regarding legal proceedings and other contingent liabilities, and (7) other statements regarding future events, conditions, or outcomes.

These forward-looking statements are based on current information, expectations, and estimates and involve risks, uncertainties, assumptions, and other factors that are difficult to predict and that could cause actual results to vary materially from what is expressed in or indicated by the forward-looking statements. In that event, our business, financial condition, results of operations, or liquidity could be materially adversely affected, and investors in our securities could lose part or all of their investments. Some of these risks, uncertainties, assumptions, and other factors can be found in our filings with the SEC, including the factors discussed below in this Item 1A, “Risk Factors” of this Annual Report, 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.

PART I

ITEM 1. BUSINESS

INTRODUCTION

Harte Hanks, Inc., together with its subsidiaries (“Harte Hanks,” “Company,” “we,” “our,” or “us”) is a leading global customer experience company. With offices in North America, Asia-Pacific and Europe, Harte Hanks works with some of the world’s most respected brands.

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. On July 13, 2020, we began trading on the OTCQX® Best Market (the “OTCQX”). On December 1, 2021, our stock was uplisted to be traded on the Nasdaq Global Market® (“Nasdaq”).

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. Additionally, we have adopted and posted on our website a code of ethics that applies to our chief executive officer, chief financial officer and general counsel. Our website also includes our corporate governance guidelines and the charters for each of our audit, compensation, and nominating and corporate governance committees. We will provide a printed copy of any of these documents to any requesting stockholder by following the instructions on our website. 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 is a leading global customer experience company operating in three business segments: Marketing Services, Customer Care, and Fulfillment & Logistics Services. Our mission is to partner with clients to provide them with a robust customer-experience, or CX, strategy, data-driven analytics and actionable insights combined with seamless program execution to better understand, attract, and engage their own customers. Our services include strategic planning, data strategy, performance analytics, creative development and execution; technology enablement; marketing automation; B2B and B2C e-commerce; cross-channel customer care; and product, print, and mail fulfillment.

Marketing Services

Our goal is to help our clients activate their audiences through digital, traditional and emerging channels. We leverage data, insights, technology, and award-winning creative solutions to meet and exceed our clients’ business objectives and optimize our client’s return on investment. We provide full service multi-channel marketing from strategy to campaign execution.

Our key offerings include:

- **Strategy** – Provide strategic guidance to help clients efficiently and effectively plan and execute omni-channel marketing programs that deliver business results. We leverage data and insight tools to enhance our clients’ understanding of their consumers, competitors and category dynamics, then apply those insights to develop marketing programs designed to drive activities like customer acquisition, engagement, purchase behavior, loyalty and advocacy.
- **Data & Analytics** – In-depth data and analytics offerings, including audience identification, profiling, segmentation and prioritization, predictive modeling and data strategy. We provide data hygiene and cleansing to ensure the best possible results. We access broad first-party and third-party data sources, search and social media, and research through syndicated, primary and secondary sources, and we leverage our proprietary DataView tool, a comprehensive, aggregate data mart that provides a 360-degree customer view, with over 1,500 consumer attributes enabling accurate predictive marketing to our clients.
- **Creative** - Full-service creative development and execution spanning traditional and digital channels, including print, broadcast, direct mail, website, app, display, social, mobile, search engine marketing, and voice.
- **Marketing Technology** – Website and app development, e-commerce development and enablement, database building and management, platform architecture creation, and marketing automation to most efficiently engage, capture, enhance, and target audiences.
- **Marketing As a Service** - A flexible outsourcing marketing operations solution, that works as a highly integrated extension of a client’s own marketing function by blending the best of agency and business outsourcing processes and capabilities. Marketing as a service operationalizes, manages and delivers high-performing data operations, marketing technology, demand generation, and staff augmentation.

Customer Care

Harte Hanks is a leading full lifecycle provider of global customer experience management services, multichannel demand generation and digital transformation. Using our integrated onshore/offshore global delivery model, we provide our services through multiple communication channels including phone, email, social media, text messaging, chat and digital self-service. By leveraging our strategy, talent and technology, we strive to offer solutions that help our clients enhance the experience for their customers and improve business. Those solutions are primarily focused on:

- **Customer Experience Management** - Interact and resolve consumer concerns across hardware and software platforms, healthcare benefit plans, recalls or a myriad of other customer service issues by leveraging technology to help reduce customer effort while providing a human touch to increase customer satisfaction.
- **CRM & Digital Transformation** – Configure different CRM solutions (e.g., Oracle, Salesforce, Zendesk) to create meaningful customer interactions by connecting content between agent or AI-driven interfaces and web-based self-help tools and community forums.
- **Demand Generation** - Provide intelligence-based B2B solutions that understand audiences and their behaviors, and then inspire and drive action to deliver results. This solution helps companies generate marketing qualified lead's ("MQL") for their marketing and sales team.
- **Inside Sales** – Helping build more effective and productive inside sales teams by introducing rigorous testing methodologies to optimize performance for internal or fully outsourced inside sales teams.

We analyze a significant amount of aggregated data obtained from customer interactions on behalf of our clients. We leverage information gained from this analysis and end customer-driven feedback to drive efficiencies, provide insights on predictive behaviors that lead to lower customer churn and help our clients innovate their core product offerings and develop innovative product features.

Fulfillment & Logistics Services

Harte Hanks fulfillment unlocks critical sales enablement and eCommerce fulfillment channels for our clients, and our best-in-class logistics team supports the supply chain needs of our clients in everything from time-sensitive deliveries to full scale supply chain management.

- **Product, Print-On-Demand, and Mail Fulfillment:** Our varied product and mail fulfillment solutions include printing on demand, managing product recalls, and distributing literature and promotional products to support B2B trade, drive marketing campaigns, and improve customer experience. Our event and influencer programs provide custom solutions to engage audiences, target customers, support conferences, and appreciate employees. Our fulfillment locations are temperature-controlled, FDA-registered, and geographically convenient, thereby allowing us to optimize print and product fulfillment to maximize customer shipping efficiency while minimizing transportation costs. We leverage our proprietary order management platform to facilitate customer orders, and we work with a variety of data sources and users to initiate the fulfillment order process.

Our new 400,000 square-foot Kansas City (KS) location is FDA registered and fully licensed for nutritional supplements, medical foods, baby formula and junior food products, chocolates, coffee and tea, edible nuts and seeds, snack foods, pet foods, pet treats, and pet nutritional supplements.

- **Logistics:** We provide third-party logistics and freight optimization services across the United States. We ship millions of time-sensitive materials annually through our access to a certified fleet of over 15,000 trucks and a proprietary rate-shopping logistical system called Allink@360 designed to ensure customer products are delivered on-time and on-budget.

Financial information about reporting segments can be found in *Item 7 - Management's Discussion and Analysis of Financial Condition and Result of Operations* and *Item 8 - Financial Statements and Supplementary Data* under Note P.

We are known for helping clients build deep customer relationships, create connected customer experiences, and optimize each and every customer touch point in order to deliver desired business outcomes. Realizing our clients' success is the only valid measure of our own success, we ensure all our efforts are aligned with our clients' business objectives and measured against defined performance metrics. It is this commitment to our clients and their businesses that allows us to build deep and meaningful relationships with them. Our client engagements may consist of one or a few of our service offerings – with a goal toward continuously expanding our client relationships.

Certain segments of our business rely on subcontractors and other third parties to provide a portion of our overall services in certain engagements. Over the years we have established strong relationships with subcontractors that translate into high level service and favorable prices for our customers.

For the years ended December 31, 2022 and 2021, Harte Hanks had revenues of \$206.3 million and \$194.6 million, respectively.

Repurchase of the Preferred Stock from Wipro, LLC

On December 2, 2022, we repurchased all 9,926 of our outstanding Series A Convertible Preferred Stock (the “Preferred Stock”) from Wipro, LLC (“Wipro”), the sole holder of the Preferred Stock pursuant to an agreement we entered into with Wipro in June 2022 (the “Repurchase Agreement”).

The Preferred Stock was repurchased in exchange for (i) a cash payment equal to its liquidation value, or a total cash payment of \$9,926,000 and (ii) the issuance to Wipro, LLC of 100,000 shares of Harte Hanks common stock, par value \$1.00 per share (the “Common Stock”). The cash portion of the repurchase price was previously paid into escrow at the signing of the Repurchase Agreement on June 30, 2022 and was released at closing. Other than the release of previously escrowed funds, no additional cash was paid by Harte Hanks at the time of closing.

Acquisition of Inside Out Solutions, LLC

On December 1, 2022, we repurchased all of the assets (the “Transaction”) of Inside Out Solutions, LLC, a Florida limited liability company (“InsideOut”), for an aggregate purchase price of approximately \$7.5 million (the “Purchase Price”) pursuant to an asset purchase agreement, dated as of December 1, 2022 by and between Harte Hanks and InsideOut (the “Asset Purchase Agreement”).

InsideOut is a premium sales enablement agency offering technology and data driven support to technology, media telecommunications, business services, industrial, and financial technology customers in the North American and European markets.

The acquisition of InsideOut further expands the capabilities of our marketing services and customer care segments and strengthens our ability to drive profitable revenue growth within our current sales enablement offerings, including: (i) demand generation which creates qualified marketing leads for our clients, and (ii) inside sales offerings to further promote a client’s internal growth objectives. In addition, the owner and CEO of InsideOut entered into a two-year consulting agreement with us, which will ensure consistency in our delivery of these sales enablement offerings, post-closing.

Restructuring Activities

Our management team continuously reviews and adjusts our cost structure and operating footprint to optimize our operations, and invest in improved technology. During 2020, in an effort to right-size our operating footprint, we terminated leases in Wilkes Barre (PA) and Grand Prairie (TX) and exited our last direct mail facility in Jacksonville (FL). We completed the migration of our fulfillment business from the Grand Prairie (TX) operations into a new 400,000 square foot facility in Kansas City (KS) in December 2020. In the first quarter of 2021, we completed the migration of our Shawnee (KS) operations to Kansas City (KS). The new Kansas City (KS) location is now our primary facility in the Midwest. In 2020, we also reduced the footprint of our Customer Care business by reducing our Austin (TX) office location by approximately 50,000 square feet in addition to exiting one of our two Manila offices as the business was operating effectively in a work-from-home environment. Finally, in 2021 we exited our remaining Customer Care office leases in Texarkana (TX) and Austin (TX) upon expiration of the lease term.

In connection with our cost-saving and restructuring initiatives, we incurred total restructuring charges of \$27.6 million through the end of 2021. We completed our restructuring in 2021 and did not incur any additional restructuring expenses in 2022.

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 B2B, consumer brand, financial services, retail, and healthcare vertical markets, in addition to a range of other select markets. Our clients include large multinational enterprises, small and medium-sized businesses and government organizations. Our largest client (measured in revenue) generated 12.2% of total revenues in 2022. Our largest 25 clients in terms of revenue generated 72.5% of total revenue in 2022. We generally enter into long-term contracts with our clients ranging in duration from one to three years. Most of our contracts do not require our customers to purchase a minimum amount of services from us. In general, our contracts with our customers are terminable on short notice with little or no penalty payable on termination.

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 clients’ cross-selling targeted marketing needs. We maintain solution-specific sales forces and sales groups to sell our individual products and solutions. We currently have 12 employees in our sales and marketing function.

Facilities

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

Domestic Offices

Chelmsford, Massachusetts	Lenexa, Kansas
Deerfield Beach, Florida	St. Petersburg, Florida
East Bridgewater, Massachusetts	Trevose, Pennsylvania
Kansas City, Kansas	

International Offices

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

Competition

Our competition comes from local, national, and international marketing, advertising, customer care, print fulfillment, 3PL, and logistics 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, pricing, 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. During 2022, we continued to see an increase in the insourcing of capabilities among our clients, which resulted in a decrease in revenues from these customers.

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 activity prior to and during the holiday season in the retail vertical and due to the open enrollment period in the healthcare 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 do not expect to need to make material capital expenditures to maintain compliance with government regulations.

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. The most material 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 consumer protection 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 United States ("U.S.") (which are generally state specific) and in the European Union ("EU"), including the General Data Protection Regulation ("EU Regulation 679/2016"), each of which imposes a number of obligations with respect to the processing of personal data, and with respect to EU Regulation 679/2016 also imposes prohibitions related to the transfer of personal information from the EU to other countries, including the United States, that do not provide data subjects with an "adequate" level of privacy or security, and applies to all of our products in the EU.
- The Financial Services Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act ("GLB"), which, among other things, regulates the use for marketing purposes of non-public personal financial information of consumers 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 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.
- The Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), which amended the FCRA and requires, among other things, consumer credit report notices 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 request the business not to use the information for such marketing purposes, subject to certain exceptions.
- 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.

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, in general, and the way we do business in particular, 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, 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 print and product fulfillment business while Allink@360 ensures customers' products are delivered on-time and on-budget.

HUMAN CAPITAL RESOURCES

As of December 31, 2022, Harte Hanks employed 1,881 full-time employees and 823 part-time employees, of which approximately 1,646 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.

Harte Hanks believes that its employees are the key to its success. Our human capital strategy focuses on:

Diversity, Equity and Inclusion: Harte Hanks recognizes the value of diversity, equity and inclusion within its organization and strives to ensure that its workplace reflects the diverse communities in which it operates in order to promote collaboration, innovation, creativity and belonging. Harte Hanks is proud of its diverse workforce and cross-cultural competency and, as of December 31, 2022, employed individuals from six different countries. As of December 31, 2022, 59% of Harte Hanks' workforce was female. Harte Hanks is committed to continue to recruit and employ qualified candidates regardless of their gender or cultural background.

Employee Benefits: Harte Hanks believes in the importance of offering its employees competitive salaries and wages, together with comprehensive insurance options. Harte Hanks recognizes the importance of comprehensive healthcare benefits, including medical, prescription drug, vision and dental, and employees and their family members are provided with tools and resources to assist in adopting and maintaining a healthy lifestyle. Harte Hanks pays the cost of basic life insurance, accidental death and dismemberment insurance, and short-term and long-term disability for its employees. Additionally, employees may purchase supplemental life and dependent life insurance.

ITEM 1A. RISK FACTORS

Risks Related to our Business

Most of our client engagements are cancelable on short notice.

The marketing services we offer, in particular for 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 or exclusivity arrangements, so clients may (and do) vary their actual orders from us over time based on their own business needs, their satisfaction with the quality and pricing of our services, and a variety of other competitive factors. In addition, the timing of particular jobs or types of jobs at particular times of year (such as mail programs supporting the holiday shopping season or contact center programs supporting a specific event) may cause significant fluctuations in the operating results of our operations in any given quarter. We depend to some extent on sales to certain industries, such as the consumer retail industries, technology, and financial services.

To the extent these industries experience downturns whether as result of the COVID-19 pandemic, another epidemic, the ongoing Russia-Ukraine war or otherwise, 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 largest client (measured in revenue) generated 12.2% of total revenues in 2022 and represented 13.0% of total accounts receivable as of December 31, 2022. Approximately 72.5% of our revenue for 2022 was generated by our 25 largest clients. 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 even a single project or contract 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.

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 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. During 2022, we continued to see an increase in the insourcing of capabilities among our clients.

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 that have broader and/or deeper offerings than us. Our failure to improve our current processes or to develop expertise in various technologies could result in the loss of our clients to current or future competitors.

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 have significantly greater financial, technical, marketing, and other resources than we do in one or all of our market segments. 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, greater capital resources 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 retain clients or 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). 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.

Climate change may have an adverse impact on our business.

While we seek to mitigate our business risks associated with climate change by establishing environmental goals and standards and seeking business partners, including within our supply chain, that are committed to operating in ways that protect the environment or mitigate environmental impacts, we recognize that there are inherent climate-related risks wherever business is conducted. Our financial results, and our operations may be vulnerable to the adverse effects of climate change, which are predicted to increase the frequency and severity of weather events and other natural cycles such as wildfires and droughts. Such events have the potential to disrupt our operations, delay deliveries, disrupt the business of third-party truck operators and impact our customers, all of which may cause us to suffer losses and additional costs to maintain or resume operations.

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, such as pandemics or other national or global health crisis or severe weather events that could disrupt our delivery networks. 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 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. For instance, in light of the current inflationary environment and increased cost of capital due to rising interest rates, our customers may reduce the amount of services we provide to them, for among other reasons, to preserve liquidity. 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 further exacerbating the risk. Our revenues are dependent on national, regional, and international economies and business conditions. 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.

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. In 2019, our management team, along with members of the Board, formed a project committee focused on cost-saving initiatives and other restructuring efforts. The committee reviewed each of our business segments and other operational areas to identify both one-time and recurring cost-saving opportunities. Even though the committee was dissolved at the end of 2019, our management team continued to review and adjust our cost structure and operating footprint, optimize our operations, and invest in improved technology. For the years ended December 31, 2021, we recorded restructuring charges of \$6.4 million, which has resulted in meaningful savings in 2022 and future years. However, 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 sites operate on leasehold property, and our inability to renew our leases on commercially acceptable terms or at all may adversely affect our results of operations.

Our sites operate on leasehold property. Our leases are subject to renewal and we may be unable to renew such leases on commercially acceptable terms or at all. Our inability to renew our leases, or a renewal of our leases with a rental rate higher than the prevailing rate under the applicable lease prior to expiration, may cause an increase in operating costs, or may cause additional cost due to relocation.

Risks Related to our Indebtedness

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

As of December 31, 2022, we had no indebtedness outstanding. However, we may incur new indebtedness from time to time.

On December 21, 2021, the Company entered a new three-year, \$25.0 million asset-based revolving credit facility (the “New Credit Facility”) with the Texas Capital Bank. The New Credit Facility replaces the Company’s previous credit facility with Texas Capital Bank, which previous facility was guaranteed by members of the Shelton family (descendants of one of our founders) to provide credit support to the Company. The New Credit Facility did not require the Shelton family or any other third-party to guarantee the Company’s obligations. However, each of the Company’s material subsidiaries guaranteed the Company’s obligations under the New Credit Facility (such subsidiaries, the “Guarantors”). The New Credit Facility is secured by substantially all the assets of the Company and the Guarantors pursuant to a Pledge and Security Agreement, dated as of December 21, 2021, between the Company, TCB and the other grantors party thereto (the “Security Agreement”). As of December 31, 2022, we had the ability to borrow an additional \$24.2 million under the New Credit Facility subject to compliance with the facilities covenants.

See Note F, *Long-Term Debt*, in the Notes to Consolidated Financial Statements for further discussion on our debt.

The Company’s ability to meet its debt service obligations and refinance its current indebtedness, as well as any future debt that it may incur, will depend upon its ability to generate cash in the future from operations, financings or asset sales, which are subject to general economic conditions, the Company’s results of operations, the state of the capital markets at the time it seeks to refinance its debt and other factors, some of which may be beyond the Company’s control. If the Company cannot repay or refinance its debt as it becomes due, the Company may be forced to sell assets or take other disadvantageous actions, including undertaking alternative financing plans, which may have onerous terms or may be unavailable, dedicating an unsustainable level of the Company’s cash flow from operations to the payment of principal and interest on its indebtedness and/or reducing the amount of liquidity available for working capital, capital expenditures and general corporate purposes.

The covenants in the New Credit Facility may limit the Company’s operating and financial flexibility.

The New Credit Facility and the terms under which we borrow money under any future credit facilities or other agreements could have significant consequences for our business. The New Credit Facility includes covenants restricting the Company’s and its subsidiaries’ ability to create, incur, assume or become liable for indebtedness; make certain investments; pay dividends or repurchase the Company’s stock; create, incur or assume liens; consummate mergers or acquisitions; liquidate, dissolve, suspend or cease operations; or modify accounting or tax reporting methods (other than as required by the generally accepted accounting principles in the United States of America (“U.S. GAAP”).

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. Specifically, the amount and terms of the Company’s 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.”

In addition, a failure to comply with these restrictions or to maintain the financial measures and ratios contained in the New Credit Facility or future debt instruments could lead to an event of default that could result in an acceleration of debt repayment obligations.

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

Pension benefits represent significant financial obligations. As of December 31, 2022, we had approximately \$39.6 million of unfunded pension liabilities. 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.

Risks Related to Cybersecurity

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, processing personal information, 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 awareness and interest in privacy rights, data protection, the fair use of personal information, consumer protection, information security, and similar matters, national and local governments and industry organizations regularly consider and adopt new laws, rules, regulations, and guidelines that impact, restrict, and regulate our business products and services. Whether already in place or scheduled to become effective in the future, comprehensive data protection, privacy, and marketing laws apply across the jurisdictions in which we operate as well as in the locations where any such personal information originates, including Europe, the Philippines, and most states throughout the United States. These regulations apply when processing personal data for business and marketing purposes and broadly impact all marketing activities, including legitimate activities associated with profiling consumer behaviors, drawing inferences from personal information, making automated decisions about individuals using personal information, transferring personal information between parties and jurisdictions, communicating with existing and prospective customers, and to other similar activities. Additionally, we are subject to operational obligations when processing and storing personal information, including, but not limited to, adopting and upholding a governance framework to protect this information, registering with relevant regulators, implementing secure infrastructure and data security standards and strategies, data breach detection and response solutions, conducting audits to identify security risks as well as carrying out additional procedures to demonstrate accountability and compliance with national and local privacy and data protection regulations. Other relevant compliance considerations in support of these mandates include establishing solutions in support of broad privacy and data protection rights, including those designed to offer notice to individuals, capture prior consent, grant access to personal information, offer choices regarding the decision to share one’s personal information and how such information can be used, as well as related controls to honor choices expressed related to if and how personal information can be processed or licensed for marketing purposes. One such solution is the “Don’t Sell My Info” link at the bottom of our corporate webpage, as well as our transparent efforts to clearly disclose our Privacy Policy and Cookie and Advertising policies. We also openly provide a link to our Security and Privacy Policies on our corporate webpage under our Investor Relations tab.

We anticipate new regulations will continue to be proposed and adopted in the future in the jurisdictions in which we operate and/or generate revenue. We also expect any new regulations will reflect the growing trends common to current privacy, data protection and marketing laws requiring companies to bear the burden of proving compliance efforts through demonstratable records, and may subject companies to significant fines and penalties should they violate any substantive or technical requirement. We may implement additional safeguards, controls and measures in response to these changes and trends; and may be required to change or limit our service offerings.

Our business may also be affected by the impact of rules and regulations on our clients’ business and 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 costs, and restrict or prevent the collection, management, aggregation, transfer, use or dissemination of personal information or change the requirements so as to require other changes to our business or our clients’ businesses, practices and tolerance for risk. 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 additional 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 existing rules, regulations or guidelines. 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 direct marketing services for 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. For instance, we believe that one of the most attractive offerings of our Marketing Services segment is the provision of data-analytics to our clients. However, the ability to provide such services is at least in part dependent on the ability to collect large volumes of voluntarily provided data. If there is a significant shift in consumer behavior or governmental regulations were to inhibit our ability to collect large amounts of this type of data, our ability to provide meaningful data analytics to our clients would likely be impaired.

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 confidential information to unauthorized third parties. We are a target of cyber-attacks of varying degrees on a regular basis. Overtime, these attacks have become increasingly sophisticated and, in some cases, have been conducted or sponsored by “nation state” operators. For instance, in January 2022 the Lapsus\$ international hacker group attacked Microsoft, Nvidia, Samsung, Ubisoft and Okta. Lapsus\$ gained access to Okta servers by compromising the laptop of a technician at one of their third-party vendors. Likewise, in April 2022, GitHub revealed that attackers had obtained OAuth tokens issued to third-party integrators Heroku and Travis CI. These tokens were then used to download data from dozens of GitHub customers who were users of applications maintained by the hackers. Such supply-chain focused cyberattacks are high value to bad actors due to the high density of valuable data such attacks can provide access to. While those incidents had no direct impact on Harte Hanks, there can be no assurance that we will not experience future events that may be material.

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 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 our standard service and operational levels for an extended period of time 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, including as a result of a localized outbreak of COVID-19 or another communicable disease, terrorist incident or natural disaster, our service levels are likely to decline or be suspended, clients would go without service or secure replacement services from a competitor. As a 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 on 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 operations centers to support both our own and our clients’ needs. 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 these vendors adequately protect their data centers from the same risks we do. Our services are dependent on regional and international networking and telecommunication providers. We believe we have taken reasonable precautions to protect our data centers and telecommunication infrastructure 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 to provide 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 four years we have replaced many of our leaders (including our Chief Executive Officer, President, Chairman, Chief Operating Officer, and Chief Financial Officer), some a number of times. 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. 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 provide assurance, 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. Our ability to provide our customers with data is somewhat dependent on the ability to obtain this data. 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 for a number of reasons, including but not limited to, 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 records. 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 are unlikely to declare cash dividends.

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. Decisions to pay dividends on our common stock will be based upon periodic determinations by our board that such dividends are 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 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 United States may affect the amount of interest we pay related to our debt and the amount we earn on cash equivalents. Our New Credit Facility bears interest based upon the Bloomberg Short-Term Bank Yield Index Rate. 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 United States, 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.

On July 27, 2017, the Financial Conduct Authority in the United Kingdom (the “FCA”) announced that it would phase out LIBOR as a benchmark by the end of 2021. The FCA ceased publication of U.S. dollar LIBOR after December 31, 2021 in the case of one-week and two-month U.S. dollar LIBOR, and will cease publication after June 30, 2023 in the case of the remaining U.S. dollar LIBOR benchmarks. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of, among other entities, large U.S. financial institutions, has recommended replacing U.S. dollar LIBOR with a new index and selected SOFR as the preferred alternate rate. While the transition to SOFR is not in and of itself expected to have a material impact on the Company’s earnings, the impact of the transition on the global financial markets and the economy could affect our business.

We are subject to risks associated with operations outside the United States

Harte Hanks conducts business outside of the United States. During 2022, approximately 11.1% of our revenues were derived from operations outside the United States, primarily in 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;
- regional conflicts, including Russia's invasion of Ukraine, as well as any additional economic sanctions adopted in response to such actions;
- the differing costs and difficulties of managing international operations;
- modifications to international trade policy 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).

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 United States 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. Our 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 expenses 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 consolidated 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 SEC, or other regulatory authorities.

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

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;
- the development and sustainability of an active trading market for our common stock;
- the transition of our common stock from the NYSE to the OTCQX; from OTCQX to NASDAQ;
- unanticipated developments with client engagements or client demand, such as variations in the size, budget, or progress 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 a strategic transaction with us, even if such a transaction would benefit our stockholders. For example, our certificate of incorporation and bylaws 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 0.9 million square feet. All facilities are held under leases, which expire at dates through 2030. See "Item 1 - Business - Facilities." In the fourth quarter of 2020, we opened our 300,000 square-foot fulfillment and distribution facility in Kansas City, Kansas. We have since expanded into an additional 100,000 square-foot space and now occupy the full 400,000 square-foot facility. We hold the facility under a lease with an eight-year remaining lease term and believe the rent is consistent with market rates. The facility is FDA registered and licensed for nutritional supplements, medical foods, baby formula and junior food products, chocolates, coffee and tea, edible nuts and seeds, snack foods, pet foods, pet treats, and pet nutritional supplements.

We believe our facilities to be adequate for our business and operations as currently administered.

ITEM 3. LEGAL PROCEEDINGS

Information regarding legal proceedings is set forth in Note M, *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 for trading on the NASDAQ under the symbol HHS. As of January 31, 2022, there were approximately 870 common stockholders of record. The last reported share price of our common stock on the NASDAQ on March 30, 2023 was \$9.40.

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, restrictions in our organizational documents including the provisions of the Company's then-existing indebtedness and other contractual arrangements. 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 2022:

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, 2022	—	\$ —	—	\$ 11,437,544
November 1 - 30, 2022	—	\$ —	—	\$ 11,437,544
December 1 - 31, 2022	—	\$ —	—	\$ 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 2022, we did not purchase any shares of our common stock through our stock repurchase program that was publicly announced in August 2014 and have not repurchased any shares under this program since 2015. Under this program, our Board had authorized us to spend up to \$20.0 million to repurchase shares of our outstanding common stock. This authorization and program have since been terminated.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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 "Forward-Looking Statements" above, which is provided pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may vary materially from what is expressed in or indicated by the forward-looking statements, for the reasons described in this MD&A, in the Risk Factors in Item 1A above or elsewhere in this Annual Report on Form 10-K.

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 included herein.

Harte Hanks, Inc. is a leading global customer experience company operating in three business segments: Marketing Services, Customer Care, and Fulfillment & Logistics Services. Our mission is to partner with clients to provide them with a robust customer-experience, or CX strategy, data-driven analytics, and actionable insights combined with seamless program execution to better understand, attract, and engage their customers. Our services include strategic planning, data strategy, performance analytics, creative development, and execution; technology enablement; marketing automation; B2B and B2C e-commerce; cross-channel customer care; and product, print, and mail fulfillment.

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, the financial condition of and budgets available to our clients, and regulatory factors, among other factors. Due to the COVID-19 pandemic, recent increases in inflation and interest rates throughout the globe, and other geopolitical uncertainties, including but not limited to the ongoing war between Russia and Ukraine, there is continued uncertainty and significant volatility and disruption in the global economy and financial markets. We remain committed to making the investments necessary to execute our multichannel strategy while also continuing to adjust our cost structure to appropriately reflect our operations and outlook.

Management is closely monitoring inflation and wage pressure in the market, and the potential impact on our business. While inflation has not had a material impact on our business, it is possible a material increase in inflation could have an impact on our clients, and in turn, on our business.

Results of Operations

Operating results from operations were as follows:

In thousands, except per share amounts	Year Ended December 31,		
	2022	% Change	2021
Revenues	\$ 206,278	6.0%	\$ 194,596
Operating expenses	191,171	2.3%	186,957
Operating income	\$ 15,107	97.8%	\$ 7,639
Operating margin	7.3%	86.6%	3.9%
Other income, net	(4,206)	-51.2%	(8,620)
Income tax expense (benefit)	(17,463)	-1455.8%	1,288
Net income	\$ 36,776	145.6%	\$ 14,971
Diluted EPS from operations	\$ 4.75	169.9%	\$ 1.76

Year ended December 31, 2022 vs. Year ended December 31, 2021

Consolidated Results*Revenues*

Revenues of \$206.3 million for the year ended December 31, 2022 increased \$11.7 million, or 6.0%, when compared to \$194.6 million for the year ended December 31, 2021. Revenue in our Fulfillment & Logistics Services increased \$22.6 million, or 35.6%, to \$86.1 million driven by revenue from new clients and increases in work from the existing clients. Revenue in our Customer Care segment decreased \$7.5 million, or 10.0%, to \$67.2 million and revenue in our Marketing Services declined \$3.4 million, or 6.1%, to \$53.0 million. For a discussion of the drivers and reasons for the year-over-year changes in revenue, see "Segment Results" below.

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 the type of targeted media advertising we provide resulting in a benefit to our business. Targeted media advertising results can be effectively tracked, enabling measurement of the return on marketing investment. However, growth will be challenged by both current and new competitors and internally generated capabilities at current and potential future clients.

Operating Expenses

Operating expenses of \$191.2 million for the year ended December 31, 2022 increased \$4.2 million, or 2.3%, when compared to \$187.0 million for the year ended December 31, 2021.

Labor costs decreased by \$5.2 million, or 4.7%, when compared to the year ended December 31, 2021, primarily due to lower labor expense in the Customer Care and Marketing Service segment associated with lower revenue which was partially offset by higher labor expense in the Fulfillment & Logistics segment driven by higher revenue and supply chain issues that have led to increased transportation costs. We have a large amount of part-time employees and are able to dynamically adjust their schedules to reflect current activities. Production and Distribution expenses increased \$15.4 million, or 30.7%, when compared to the year ended December 31, 2021, primarily due to higher transportation costs to support additional logistics revenue as well as higher brokered, or outsourced costs due to higher brokered revenue. Advertising, Selling and General and Administrative expenses increased \$0.1 million or 0.6%, when compared to the year ended December 31, 2021. Depreciation expense increased \$0.2 million, or 6.6%, when compared to the year ended December 31, 2021, primarily due to the addition of our new ERP system.

Restructuring expenses were \$0 million and \$6.4 million for the years ended December 31, 2022 and 2021, respectively. See Note O, *Restructuring Activities*, in the Notes to Consolidated Financial Statements for further discussion of restructuring activities.

The largest components of our operating expenses are labor, transportation expenses and outsourced costs. Each of these costs is, at least in part, variable and tends to fluctuate in line with revenues and the demand for our services. Transportation rates have increased over the last few years due to demand and supply fluctuations within the transportation industry. Future changes in transportation expenses will continue to impact our total production costs and total operating expenses, and in turn our margins, 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.

Interest Expense, net

Interest expense, net, for the year ended December 31, 2022, decreased \$0.5 million when compared to the year ended December 31, 2021, due to a lower debt balance as compared to the year ended December 31, 2021.

Other (Income) Expense, net

Total other income, net was \$4.6 million for the year ended December 31, 2022, when compared to other expense, net of \$0.5 million for the year ended December 31, 2021. This \$5.1 million increase in other income was primarily attributable to a \$2.4 million increase in foreign currency revaluation income and \$2.5 million gain from the sale of unused IP addresses which were no longer useful to the Company. This increase was partially offset by \$0.7 million increase of pension expense as a result of the lower return on investment from poorer asset performance as compared to the year ended December 31, 2021. We do not expect the sale of IP addresses, in the future, if any, to generate a significant amount of other income.

Income Taxes

Our 2022 income tax benefit was \$17.5 million for the year ended December 31, 2022, when compared to tax expense of \$1.3 million for the year ended December 31, 2021. The increase in benefit of \$18.8 million was primarily related to the removal of the majority of the U.S. valuation allowance for the year ended December 31, 2022.

Segment Results

The following is a discussion and analysis of the results of our reporting segments for the years ended December 31, 2022 and 2021. There are three principal financial measures reported to our CEO (the chief operating decision maker) for use in assessing segment performance and allocating resources. Those measures are revenues, operating income and operating income plus depreciation and amortization ("EBITDA"). For additional information, see Note P, *Segment Reporting*, in the Notes to Consolidated Financial Statements for further discussion.

Marketing Services:

In thousands	Year Ended December 31,		
	2022	% Change	2021
Revenues	\$ 52,975	-6.1%	\$ 56,388
EBITDA	\$ 7,344	-4.8%	\$ 7,713
Operating Income	6,982	-2.8%	7,183
Operating Income % of Revenue	13.2%	3.5%	12.7%

Marketing Services segment revenue declined \$3.4 million, or 6.1%, due to a decrease in direct mail service volume from existing customers. Operating income for the year ended December 31, 2022 decreased \$0.2 million due to the lower revenue which was partially offset by lower operating expense driven by improved labor utilization.

Customer Care:

In thousands	Year Ended December 31,		
	2022	% Change	2021
Revenues	\$ 67,205	-10.0%	\$ 74,691
EBITDA	\$ 12,167	-3.2%	\$ 12,569
Operating Income	11,283	-3.7%	11,720
Operating Income % of Revenue	16.8%	7.0%	15.7%

Customer Care segment revenue decreased \$7.5 million primarily due to a decrease in volumes with existing customers. Operating Income for the year ended December 31, 2022 was \$11.3 million, a decrease of \$0.4 million when compared to the prior year due to lower revenue which was partially offset by lower operating expense driven by improved operational efficiency.

Fulfillment & Logistics Services:

In thousands	Year Ended December 31,		
	2022	% Change	2021
Revenues	\$ 86,098	35.6%	\$ 63,517
EBITDA	\$ 10,593	-58.2%	\$ 6,698
Operating Income	9,769	-63.4%	5,980
Operating Income % of Revenue	11.3%	-20.5%	9.4%

Fulfillment & Logistics Services segment revenue increased \$22.6 million, or 35.6%, primarily driven by revenue from new customers and an increase in work from existing customers. Operating income was \$9.8 million for the year ended December 31, 2022 compared to \$6.0 million for the year ended December 31, 2021. The \$3.8 million increase was primarily driven by the higher revenue and lower operating expense from improved operational efficiency. Operating income for the prior year period included a favorable \$0.8 million litigation settlement.

Liquidity and Capital Resources

Sources and Uses of Cash

Our cash and cash equivalent balances were \$10.4 million and \$11.9 million as of December 31, 2022 and 2021, respectively. Our cash and cash equivalent and restricted cash balances were \$10.4 million and \$15.1 million as of December 31, 2022 and 2021, respectively. As of December 31, 2022, we had the ability to borrow an additional \$24.2 million under our New Credit Facility. The money deposited in an escrow account to satisfy our contingent payment obligations for the acquisition of InsideOut is not included in our cash and cash equivalent or restricted cash balances as of December 31, 2022.

During 2020, we received an aggregate of \$9.6 million in tax refunds related to our net operating loss (“NOL”) and capital loss carryback for the 2013-2018 tax years. We received \$2.5 million in tax refunds in 2022 and has received an additional tax refund of \$5.3 million in March 2023, as a result of the change to the tax NOL carryback provisions included in the CARES Act.

Our principal sources of liquidity are cash on hand, cash provided by operating activities, and borrowings available under our New Credit Facility. Our cash is primarily used for general corporate purposes, working capital requirements, debt service 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, finance and operating leases and unfunded pension plan benefit payments) and other cash needs for our operations for at least the twelve months from the date of this Annual Report through a combination of cash on hand, cash flow from operations, and borrowings under the New Credit Facility. Although the Company believes that it will be able to meet its cash needs for the short and medium term, if unforeseen circumstances arise the company may need to seek alternative sources of liquidity.

Operating Activities

Net cash provided by operating activities was \$28.8 million for the year ended December 31, 2022, when compared to cash used in operating activities of \$1.8 million for the year ended December 31, 2021. The \$30.6 million year-over-year increase in cash provided by operating activities was primarily driven by the \$21.8 million higher net income, which excludes the \$10 million non-cash gain in 2021 from extinguishment of PPP loan, \$1.1 million increase in deferred revenue and customer advances, \$8.0 million increase in accounts payable and accrued expenses, other accrued expenses and liabilities due to increased transportation expenses in the year ended December 31, 2022. The above increase was partially offset by the decrease of \$5.3 million in customer postage and program deposits. The net income for the year ended December 31, 2022 also included a non-recurring \$2.5 million gain from the sale of unused IP addresses which were no longer useful to the Company.

Investing Activities

Net cash used in investing activities was \$11.5 million for the year ended December 31, 2022, compared to cash used in investing activities of \$2.9 million for the year ended December 31, 2021. The \$8.6 million increase was mainly due to the \$5.8 million of cash used to purchase InsideOut and \$5.8 million of cash used to purchase property, plant and equipment (mainly for our new ERP system) in the year ended December 31, 2022 when compared to the year ended December 31, 2021.

Financing Activities

Net cash used in financing activities was \$15.8 million for the year ended December 31, 2022, compared to \$13.4 million net cash used in financing activities for the year ended December 31, 2021. The \$2.4 million decrease was primarily due to the \$10.0 million cash used for the repurchase of Preferred Stock for the year ended December 31, 2022 as compared to \$5.0 million cash proceeds from New Credit Facility for the year ended December 31, 2021. This decrease was partially offset by the \$5.0 million repayment of the borrowings under our New Credit Facility in the year ended December 31, 2022 as compared to the \$17.1 million repayment of the Texas Capital Credit Facility for the year ended December 31, 2021.

Foreign Holdings of Cash

Consolidated foreign holdings of cash as of December 31, 2022 and 2021 were \$3.4 million and \$2.6 million, respectively. The Company does not believe it will need to re-patriate foreign cash holdings to meet domestic obligations.

Long Term Debt

On December 21, 2021, the Company entered a new three-year, \$25,000,000 asset-based revolving credit facility (the “New Credit Facility”) with Texas Capital Bank. The Company’s obligations under the New Credit Facility are guaranteed on a joint and several basis by the Company’s material subsidiaries (the “Guarantors”). The New Credit Facility is secured by substantially all the assets of the Company and the Guarantors pursuant to a Pledge and Security Agreement, dated as of December 21, 2021, between the Company, TCB and the other grantors party thereto (the “Security Agreement”).

The New Credit Facility provides for loans up to the lesser of (a) \$25,000,000, and (b) the amount available under a “borrowing base” calculated primarily by reference to the Company’s cash and cash equivalents and accounts receivables. The New Credit Facility allows the Company to use up to \$3,000,000 of its borrowing capacity to issue letters of credit.

The loans under the New Credit Facility accrue interest at a varying rate equal to the Bloomberg Short-Term Bank Yield Index Rate plus a margin of 2.25% per annum. The outstanding amounts advanced under the New Credit Facility are due and payable in full on December 21, 2024.

The Company may repay and reborrow all or any portion of the loans advanced under the New Credit Facility at any time, without premium or penalty. The New Credit Facility is subject to mandatory prepayments (i) from the net proceeds of asset dispositions not otherwise permitted under the New Credit Facility; (ii) if the unpaid principal balance under the New Credit Facility plus the aggregate face amount of all outstanding letters of credit exceeds the borrowing base; (iii) in an amount equal to 50% of the net proceeds of issuances of capital stock (subject to customary exceptions); or (iv) in an amount equal to the net proceeds from any issuance of debt not otherwise permitted under the New Credit Facility.

The New Credit Facility contains certain covenants restricting the Company’s and its subsidiaries’ ability to create, incur, assume or become liable for indebtedness; make certain investments; pay dividends or repurchase the Company’s stock; create, incur or assume liens; consummate mergers or acquisitions; liquidate, dissolve, suspend or cease operations; or modify accounting or tax reporting methods (other than as required by U.S. GAAP).

In connection with entering the New Credit Facility, the Company and Texas Capital Bank terminated the Old Texas Capital Credit Facility. Prior to termination of the Old Texas Capital Credit Facility, the Company used cash on hand to pay down \$8.1 million outstanding and the remaining \$5 million of loans outstanding were deemed to be outstanding under the New Credit Facility. Texas Capital Bank did not require the New Credit Facility to be guaranteed 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 the Company’s founders) or any other third-party credit support.

As of December 31, 2022 and 2021, we had \$0.0 million and \$5.0 million of borrowings outstanding under the New Credit Facility, respectively. At each of December 31, 2022 and 2021, we had letters of credit in the amount of \$0.8 million outstanding. No amounts were drawn against these letters of credit at December 31, 2022 and 2021. These letters of credit exist to support insurance programs relating to workers’ compensation, automobile, and general liability. We had no other off-balance sheet financing arrangements as of December 31, 2022 and 2021.

As of December 31, 2022, we had the ability to borrow an additional \$24.2 million under the New Credit Facility.

On April 20, 2020, the Company received loan proceeds in the amount of \$10.0 million under the Small Business Administration (“SBA”) PPP Term Note.

On June 10, 2021, we received notice that the entire amount of our PPP Term Note was forgiven by the SBA because we used the proceeds from the loan as contemplated under the CARES Act. We recorded the \$10.0 million of debt extinguishment as “Gain from extinguishment of debt (Paycheck Protection Program Term Note)” in the Consolidated Statements of Comprehensive Income.

Dividends

We did not pay any dividends in either 2022 or 2021. 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 2022 and 2021, we did not repurchase any shares of our common stock under our stock repurchase program that was publicly announced in August 2014. Under this program we were authorized to spend up to \$20.0 million to repurchase shares of our outstanding common stock. As of December 31, 2022, we had authorization of \$11.4 million remaining under this program. From 1997 through December 31, 2015, we repurchased 6.8 million shares for an aggregate of \$1.2 billion under this program and previously announced programs. We have not made any repurchases under the program since 2015. This authorization and program have since been terminated. This program excluded the 2022 Preferred Stock repurchase described in “Repurchase of the Preferred Stock from Wipro, LLC”.

Outlook

We consider such factors as total cash and cash equivalents and restricted cash, 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 and Estimates

Our Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions based on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Our actual results could differ from these estimates under different assumptions or conditions. The areas that we believe involve the most significant management estimates and assumptions are detailed below. On an ongoing basis, management reviews its estimates and assumptions based on currently available information.

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.

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 accordance with 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. For revenue generated from arrangements that involve third parties, there is significant judgment in evaluating whether we are the principal, and report revenue on a gross basis, or the agent, and report revenue on a net basis.

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 B, *Recent Accounting Pronouncements*, 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.

Not applicable.

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 32 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, 2022. 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.

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.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting during our most recent fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees have worked remotely since March 2020 as a result of the COVID-19 pandemic and continue to do so. We are continually monitoring and assessing the impact of this remote working arrangement on our internal controls to minimize the impact on their design and operating effectiveness.

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, 2022.

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, 2022.

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, 2022.

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, 2022.

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, 2022.

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 30 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

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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.

To the shareholders and the board of directors of Harte Hanks, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Harte Hanks, Inc. and Subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of comprehensive income, changes in stockholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. 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 audits 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 consolidated 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 audits, 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 audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matters communicated below are the matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which it relates.

Revenue from Contracts with Customers

As described in Note C to the consolidated financial statements, the Company recorded \$206.3 million in revenue for the year ended December 31, 2022, which consists of three major revenue streams. The nature of the services offered by each revenue stream is different, and the Company's process for revenue recognition differs between each of the discrete revenue streams. Additionally, a portion of the Company's revenue is recognized through large volumes of low-dollar transactions. The Company's revenue recognition processes are reliant upon a combination of automated and manual controls which rely on several distinct information technology (IT) systems.

We identified revenue from contracts with customers as a critical audit matter. Obtaining an understanding of the complex processes and systems used in the Company's revenue recognition and evaluating the processes and related internal controls for multiple revenue streams required significant auditor effort, including specialized skills and knowledge related to several distinct IT systems. Additionally, determining the nature and extent of our audit procedures and evaluating the overall sufficiency of the audit evidence required subjective auditor judgment.

Addressing the critical audit matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included, among others:

- Testing the design and operating effectiveness of key process-level controls related to revenue, including both manual and automated controls.
- Involving IT professionals with specialized skills and knowledge who assisted in the identification of key systems used for the processing and recording of revenue transactions and testing the application and IT controls relevant to each of these systems.
- For a selection of transactions, comparing the amount of revenue recorded for consistency with underlying supporting documentation.
- Evaluating the overall sufficiency of the audit evidence obtained over revenue

Evaluation of the Realizability of Deferred Tax Assets

As described in Note I to the Company's consolidated financial statements, after assessing available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of existing deferred tax assets, most notably the Company's sustained profitability over the past two years and estimated future taxable income, the Company determined that sufficient evidence exists as of December 31, 2022, that it is more likely than not that a significant portion of its deferred tax assets would be realized and released a portion of the Company's valuation allowance. The release of the valuation allowance related to these deferred tax assets was approximately \$18.2 million and recorded as income tax benefit during the year ended December 31, 2022.

We identified the evaluation of the realizability of deferred tax assets as a critical audit matter due to management's judgments involved to assess the future realization of deferred tax assets. Subjective and challenging auditor judgement was required to assess the application of tax laws and evaluate the projected future taxable income over the periods in which those temporary differences become deductible.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the reasonableness of management's assumptions of future taxable income, including comparing forecasts against historical performance while considering current and anticipated future business performance and market events and whether the information was materially consistent with evidence obtained in other areas of the audit.
- Evaluating the realizability of deferred tax assets, including application of tax laws and the projections of future taxable income.
- With the assistance of our income tax specialists, we evaluated the appropriateness of the Company's tax positions and analysis of management's conclusion that certain of the Company's deferred tax assets are more likely than not to be utilized.

/s/ Baker Tilly US, LLP

We have served as the Company's auditor since 2019.

Tewksbury, Massachusetts
March 31, 2023

Harte Hanks, Inc. and Subsidiaries Consolidated Balance Sheets

In thousands, except per share and share amounts	December 31,	
	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,364	\$ 11,911
Restricted cash	—	3,222
Accounts receivable (less allowance of \$163 at December 31, 2022 and \$266 at December 31, 2021)	39,700	41,051
Unbilled accounts receivable	7,893	8,134
Contract assets	309	622
Prepaid expenses	2,176	1,948
Prepaid income tax and income tax receivable	4,262	7,456
Other current assets	1,607	1,031
Total current assets	66,311	75,375
Property, plant and equipment		
Buildings and improvements	4,387	6,430
Equipment and furniture	20,478	21,189
Software	20,724	29,949
Software development and equipment installations in progress	8,947	2,691
Gross property, plant and equipment	54,536	60,259
Less accumulated depreciation	(44,013)	(52,512)
Net property, plant and equipment	10,523	7,747
Right-of-use assets		
Other assets	19,169	22,142
Intangible assets, net	3,540	—
Goodwill	2,398	—
Deferred tax assets, net	16,306	—
Other long-term assets	1,737	2,597
Other assets	23,981	2,597
Total assets	\$ 119,984	\$ 107,861
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued expenses	\$ 22,465	\$ 16,132
Accrued payroll and related expenses	6,679	7,028
Deferred revenue and customer advances	4,590	3,942
Customer postage and program deposits	1,223	6,496
Other current liabilities	2,862	2,291
Short-term lease liabilities	5,747	6,553
Total current liabilities	43,566	42,442
Long-term debt, net of current portion	—	5,000
Pension liabilities - Qualified plans	18,674	27,359
Pension liabilities - Nonqualified plan	19,098	25,140
Long-term lease liabilities	16,575	19,215
Other long-term liabilities	3,263	3,697
Total liabilities	101,176	122,853
Preferred stock, \$1 par value, 1,000,000 shares authorized; 0 and 9,926 shares of Series A Convertible Preferred Stock, issued and outstanding at December 31, 2022 and December 2021, respectively	—	9,723
Stockholders' equity (deficit)		
Common stock, \$1 par value, 25,000,000 shares authorized, 12,221,484 shares issued, 7,402,614 and 6,976,144 shares outstanding at December 31, 2022 and December 31, 2021, respectively	12,221	12,121
Additional paid-in capital	218,411	290,711
Retained earnings	846,490	811,094
Less treasury stock, 4,818,870 shares at cost at December 31, 2022 and 5,145,340 shares at cost at December 31, 2021	(1,010,012)	(1,085,313)
Accumulated other comprehensive loss	(48,302)	(53,328)
Total stockholders' equity (deficit)	18,808	(24,715)
Total liabilities, preferred stock and stockholders' equity (deficit)	\$ 119,984	\$ 107,861

See Accompanying Notes to Consolidated Financial Statements.

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

In thousands, except per share amounts	Year Ended December 31,	
	2022	2021
Operating revenue	\$ 206,278	\$ 194,596
Operating expenses		
Labor	104,772	109,917
Production and distribution	65,701	50,264
Advertising, selling, general and administrative	17,970	17,858
Restructuring expense	—	6,359
Depreciation and amortization expense	2,728	2,559
Total operating expenses	191,171	186,957
Operating income	15,107	7,639
Other income, net		
Interest expense, net	438	903
Gain from extinguishment of debt (Paycheck Protection Program Term Note)	—	(10,000)
Other (income) expense, net	(4,644)	477
Total other income, net	(4,206)	(8,620)
Income before income taxes	19,313	16,259
Income tax (benefit) expense	(17,463)	1,288
Net income	\$ 36,776	\$ 14,971
Less: Loss from redemption of Preferred stock	1,380	—
Less: Preferred stock dividends	—	496
Less: Earnings attributable to participating securities	—	1,858
Income attributable to common stockholders	\$ 35,396	\$ 12,617
Earnings per common share		
Basic	\$ 4.98	\$ 1.85
Diluted	\$ 4.75	\$ 1.76
Weighted-average shares used to compute income per share attributable to common shares		
Basic	7,101	6,802
Diluted	7,457	7,209
Comprehensive income, net of tax		
Net income	\$ 36,776	\$ 14,971
Adjustment to pension liability	10,274	14,150
Foreign currency translation adjustments	(5,248)	(1,867)
Total other comprehensive income, net of tax	5,026	12,283
Comprehensive income	\$ 41,802	\$ 27,254

See Accompanying Notes to Consolidated Financial Statements.

Harte Hanks, Inc. and Subsidiaries Consolidated Statements of Changes in Stockholders' Equity (Deficit)

In thousands	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (loss) income	Total Stockholders' Equity (Deficit)
Balance at December 31, 2020	\$ 9,723	\$ 12,121	\$ 383,043	\$ 796,123	\$ (1,178,799)	\$ (65,611)	\$ (53,123)
Exercise of stock options	—	—	(6,708)	—	6,802	—	94
Stock-based compensation	—	—	1,445	—	—	—	1,445
Vesting of RSU's	—	—	(87,069)	—	86,684	—	(385)
Net income	—	—	—	14,971	—	—	14,971
Other comprehensive loss	—	—	—	—	—	12,283	12,283
Balance at December 31, 2021	\$ 9,723	\$ 12,121	\$ 290,711	\$ 811,094	\$ (1,085,313)	\$ (53,328)	\$ (24,715)
Redemption of preferred stock	(9,723)	—	—	(1,380)	—	—	(1,380)
Issuance of common stock in connection with redemption of preferred stock	—	100	977	—	—	—	1,077
Stock-based compensation	—	—	2,493	—	—	—	2,493
Vesting of RSU's and issuance of Treasury stocks in connection with acquisition (see Note L)	—	—	(75,770)	—	75,301	—	(469)
Net income	—	—	—	36,776	—	—	36,776
Other comprehensive income	—	—	—	—	—	5,026	5,026
Balance at December 31, 2022	\$ —	\$ 12,221	\$ 218,411	\$ 846,490	\$ (1,010,012)	\$ (48,302)	\$ 18,808

See Accompanying Notes to Consolidated Financial Statements.

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

In thousands	Year Ended December 31,	
	2022	2021
Cash Flows from Operating Activities		
Net income	\$ 36,776	\$ 14,971
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization expense	2,728	2,559
Restructuring	—	913
Stock-based compensation	2,355	1,469
Gain from extinguishment of debt (Paycheck Protection Program Term Note)	—	(10,000)
Net pension payment	(1,009)	(717)
Deferred income taxes	(19,843)	—
Changes in assets and liabilities, net of dispositions:		
Decrease (increase) in accounts receivable, net and contract assets	3,843	(9,175)
Decrease in prepaid expenses, income tax receivable and other current assets	2,779	925
Increase (decrease) in accounts payable and accrued expense	6,200	(395)
Increase (decrease) in deferred revenue and customer advances	383	(719)
Decrease in customer postage and program deposits	(5,273)	(1)
Decrease in other accrued expenses and liabilities	(147)	(1,593)
Net cash provided by (used in) operating activities	28,792	(1,763)
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(5,800)	(3,046)
Proceeds from the sale of property, plant and equipment	57	146
Acquisition of InsideOut	(5,750)	—
Net cash used in investing activities	(11,493)	(2,900)
Cash Flows from Financing Activities		
Borrowings	—	5,000
Repayment of borrowings	(5,000)	(17,100)
Debt financing costs	(131)	(795)
Payment of finance leases	(194)	(227)
Redemption of preferred stock	(10,026)	—
Treasury stock activities	(469)	(291)
Net cash used in financing activities	(15,820)	(13,413)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(5,248)	(353)
Net decrease in cash and cash equivalents and restricted cash	(3,769)	(18,429)
Cash and cash equivalents and restricted cash at beginning of year	15,133	33,562
Cash and cash equivalents and restricted cash at end of year	\$ 11,364 (1)	\$ 15,133
(1) This amount is comprised of the below balances:		
Cash and cash equivalents	\$ 10,364	\$ 11,911
Restricted cash	—	3,222
Cash held in Escrow account included in other current assets (see Note O)	1,000	—
	\$ 11,364	\$ 15,133
Supplemental disclosures		
Cash paid for interest	\$ 273	\$ 490
Cash (received) paid for income taxes, net	\$ (1,391)	\$ 1,323
Non-cash investing and financing activities		
Purchases of property, plant and equipment included in accounts payable and accrued expense	\$ 2,048	\$ 2,715
Issuance of common stock	\$ (1,077)	\$ —

See Accompanying Notes to Consolidated Financial Statements

Harte Hanks, Inc. and Subsidiaries Notes to Consolidated Financial Statements**Note A — Overview and Significant Accounting Policies****Background**

Harte Hanks, Inc. together with its subsidiaries (“Harte Hanks,” “Company,” “we,” “our,” or “us”) is a leading global customer experience company. With offices in North America, Asia-Pacific and Europe, Harte Hanks works with some of the world’s most respected brands.

Segment Reporting

The Company operates three business segments: Marketing Services; Customer Care; and Fulfillment & Logistics Services. Our Chief Executive Officer (“CEO”) is considered to be our chief operating decision maker. Our CEO reviews our operating results on an aggregate basis for purposes of allocating resources and evaluating financial performance by using the three financial measures: revenue, operating income and operating income plus depreciation and amortization (EBITDA).

Geographic Concentrations

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

The following table provides information about the operations in different geographic area for the periods indicated:

In thousands	Year Ended December 31,	
	2022	2021
Revenue (1)		
United States	\$ 183,470	\$ 175,437
Other countries	22,808	19,159
Total revenue	<u>\$ 206,278</u>	<u>\$ 194,596</u>

In thousands	December 31,	
	2022	2021
Property, plant and equipment, net (2)		
United States	\$ 10,219	\$ 7,549
Other countries	304	198
Total property, plant and equipment	\$ 10,523	\$ 7,747

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

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

Credit Risk and Concentration

Accounts receivable are typically unsecured and are derived from revenue earned from customers across different industries and countries. We perform ongoing credit evaluation of our customers and generally do not require collateral. We maintain an allowance for estimated credit losses and bad debt expense on these losses was not material during the years ended December 31, 2022 and 2021. In the event that accounts receivable collection cycle deteriorates, our operating results and financial position could be adversely affected.

Our top customer represented 13.0% and 14.6% of total accounts receivable as of December 31, 2022 and 2021, respectively.

Revenue by Top Customers

The table below sets forth the percentage of our total revenue derived from our largest customers for the years ended December 31, 2022 and 2021, respectively:

In thousands	Year Ended December 31,	
	2022	2021
Top ten customers	50.6%	53.0%
Top twenty-five customers	72.5%	72.6%

Related Party Transactions

From 2016 until October 2020, we conducted business with Wipro, LLC (“Wipro”), whereby Wipro provided us with a variety of technology-related services. We have since terminated all service agreements with Wipro.

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 14% of our Common Stock as of December 31, 2021), for aggregate consideration of \$9.9 million. On December 2, 2022, we completed the repurchase of all of our outstanding Preferred Stock from Wipro.

Consolidation

The accompanying audited consolidated financial statements include the accounts of Harte Hanks, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. As used in this report, the terms “Harte Hanks,” “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

Preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from those estimates due to uncertainties. 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; revenue recognition; income taxes; stock-based compensation and contingencies. On an ongoing basis, management reviews its estimates and assumptions based on currently available information. Changes in facts and circumstances could result in revised estimates and assumptions.

Operating Expense Presentation in the Consolidated Statements of Comprehensive Income

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

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 based on the relevant contract. 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 payable to the engine host 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 each contract. These fees are typically a set fixed price or rate by transaction occurrence, service provided, time spent, or product delivered.

For arrangements requiring the design and build out 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 is 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 is typically based on a fixed price per month or per contract.

Fair Value of Financial Instruments

Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("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, 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.

Accounts Receivable and Allowance for Credit Losses

Accounts receivables are recorded and carried at the original invoiced amount less an allowance for any potential uncollectible amounts. We make estimates of expected credit and collectability trends for the allowance for credit losses based upon our assessment of various factors, including historical experience, the age of the accounts receivable balances, credit quality of our customers, current and future economic conditions that may affect the Company's expectation of the collectability in determining the allowance for credit losses. Expected credit losses are recorded in the "Advertising, selling, general, and administrative" line of our Consolidated Statements of Comprehensive Income. As of December 31, 2022 and 2021, our accounts receivables, net, was \$47.6 million and \$49.2 million, respectively. The Company classifies unbilled receivables as Accounts receivable. The changes in the allowance for credit losses accounts consisted of the following:

In thousands	Year Ended December 31,	
	2022	2021
Balance at beginning of year	\$ 266	\$ 241
Net charges to expense	(92)	95
Amounts recovered against the allowance	(11)	(70)
Balance at end of year	\$ 163	\$ 266

Property, Plant and Equipment

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

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

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 \$0.2 million impairment of long-lived assets in both 2022 and 2021.

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 in the current portion and long-term portion of lease liabilities 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 of each lease 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 of each lease to determine the present value of lease payments. The operating lease ROU assets also include any lease payments made and exclude lease incentives. Our lease terms may include options to extend or terminate the lease, which are included in the lease ROU assets 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.

Capitalization of Software Development Costs

Capitalized software costs for internally developed software and implementation of third-party software are amortized over a period of three to five years. On an ongoing basis, management reviews the valuation of these software costs to determine if there has been impairment to the carrying value of these assets and adjusts this value accordingly.

Goodwill

Goodwill is the amount by which the cost of the acquired net assets in a business combination exceeds the fair value of the identifiable net assets on the date of purchase. Goodwill is not amortized. Goodwill is reviewed for impairment at least annually during the fourth quarter, or more frequently if events occur indicating the potential for impairment.

The Company has three reporting segments, but goodwill is booked in the Customer Care segment. During its goodwill impairment review, the Company may assess qualitative factors to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount, including goodwill. The qualitative factors include, but are not limited to, macroeconomic conditions, industry and market considerations, and the overall financial performance of the Company. If, after assessing the totality of these qualitative factors, the Company determines that it is not more likely than not that the fair value of its reporting unit is less than its carrying amount, then no additional assessment is deemed necessary. Otherwise, the Company performs a quantitative goodwill impairment test. The Company may also elect to bypass the qualitative assessment in a period and elect to proceed to perform the quantitative goodwill impairment test.

Intangible Assets

Intangible assets consist of finite-lived intangible assets acquired through the Company’s business combinations. Such amounts are initially recorded at fair value and subsequently amortized over their useful lives using the straight-line method, which reflects the pattern of benefit, and assumes no residual value.

Finite-lived intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require an intangible asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that intangible asset to its carrying amount. If the carrying amount of the intangible asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

The factors that drive the estimate of useful life are often uncertain and are reviewed on a periodic basis or when events occur that warrant review. Recoverability is measured by comparing the assets’ book value to future net undiscounted cash flows that the assets are expected to generate to determine if a write-down to the recoverable amount is appropriate. If such assets are written down, an impairment will be recognized as the amount by which the book value of the asset group exceeds the recoverable amount.

Income Taxes

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

Earnings Per Share

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

Stock-Based Compensation

All share-based awards are recognized as operating expense in the “Labor” line of the Consolidated Statements of Comprehensive Income. 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 programs.

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, 2022 and 2021, our reserve for healthcare, workers’ compensation, net, automobile, and general liability was \$1.2 million for each year. Periodic changes to the reserve for workers’ compensation, automobile and general liability are recorded as increases or decreases to insurance expense, which is included in the “Advertising, selling, general and administrative” line of our Consolidated Statements of Comprehensive Income. 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.

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 income.

Note B - Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses*. This ASU added a new impairment model (known as the current expected credit loss (“CECL”) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The CECL model applies to most debt instruments, trade receivables, lease receivables, financial guarantee contracts, and other loan commitments. The CECL model does not have a minimum threshold for recognition of impairment losses and entities will need to measure expected credit losses on assets that have a low risk of loss. As a smaller reporting company pursuant to Rule 12b-2 of the Securities Exchange Act of 1934, as amended, these changes became effective for the Company on January 1, 2022. The adoption of this new standard did not have a material impact on our consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Liabilities from Contracts with Customers*. This ASU requires an acquiring entity to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. The ASU is effective for fiscal years and interim periods beginning after December 15, 2022, with early adoption permitted. The Company is evaluating the impact of adopting this ASU.

Note C - Revenue from Contracts with Customers

Under Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (“ASC 606”), an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that 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. This standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This 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 sold or service provided. Payment terms can vary by contract, but the period between invoicing and when payment is due is not significant. The Company’s contracts with its customers generally do not include rights of return or a significant financing component.

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

Disaggregation of Revenue

We disaggregate revenue by three key revenue streams which are aligned with our business segments. The nature of the services offered by each key revenue stream is different. The following tables summarize revenue from contracts with customers for the years ended December 31, 2022 and 2021 from our three business segments and the pattern of revenue recognition:

	For the Year Ended December 31, 2022		
	Revenue for performance obligations recognized over time	Revenue for performance obligations recognized at a point in time	Total
In thousands			
Marketing Services	\$ 45,020	\$ 7,955	\$ 52,975
Customer Care	67,205	—	67,205
Fulfillment & Logistics Services	75,081	11,017	86,098
Total Revenue	\$ 187,306	\$ 18,972	\$ 206,278

	For the Year Ended December 31, 2021		
	Revenue for performance obligations recognized over time	Revenue for performance obligations recognized at a point in time	Total
In thousands			
Marketing Services	\$ 48,450	\$ 7,938	\$ 56,388
Customer Care	74,691	—	74,691
Fulfillment & Logistics Services	55,754	7,763	63,517
Total Revenue	\$ 178,895	\$ 15,701	\$ 194,596

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:

Marketing Services

Our Marketing Services segment delivers strategic planning, data strategy, performance analytics, creative development and execution, technology enablement, marketing automation, and database management. We create relevancy by leveraging data, insight, and our extensive experience in leading clients as they engage their customers through digital, traditional, and emerging channels. We are known for helping clients build deep customer relationships, create connected customer experiences, and optimize each and every customer touch point in order to deliver desired business outcomes.

Most marketing services performance obligations are satisfied over time and often offered on a project basis. We have concluded that the best approach to measure the progress toward completion of the project-based performance obligations is the input method, which is based on either the costs or labor hours incurred to date depending 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.

Our database solutions are built around centralized marketing databases with services rendered to build custom databases, 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, customer or target marketing lists and data processing services, may be satisfied over time or at a point in time. We provide 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.

Our contracts may include outsourced print production work for our clients. These 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.

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.

Customer Care

We operate tele-service workstations in the United States, 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 are satisfied over time. With regard to account management and software as a service (“SaaS”), we use a time-elapsed output method to recognize revenue. 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 SSPs.

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 are estimated using the expected value method.

Fulfillment & Logistics Services

Our services, delivered internally and with our partners, include: printing, lettershop, advanced mail optimization (including commingling services), logistics and transportation optimization, monitoring and tracking, to support traditional and specialized mailings. Our print and fulfillment centers in Massachusetts and Kansas provide custom kitting services, print on demand, product recalls, trade marketing fulfillment, ecommerce product fulfillment, sampling programs, and freight optimization, thereby allowing our customers to distribute literature and other marketing materials.

Most 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. Prior to the closure of our direct mail production facilities, our direct mail business contracts may have included 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. As we do not deem these activities as transferring a separate promised service, the receipt of such fees represents 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 not material to the Company's consolidated financial statements as of December 31, 2022 and 2021.

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. As of December 31, 2022, we had no transaction prices allocated to unsatisfied or partially satisfied performance obligations.

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 Sheets as a contract liability, referred to as deferred revenue. The following table summarizes our contract balances as of December 31, 2022 and 2021:

In thousands	December 31, 2022	December 31, 2021
Contract assets	\$ 309	\$ 622
Deferred revenue and customer advances	4,590	3,942
Deferred revenue included in other long-term liabilities	432	756

Revenue recognized during the year ended December 31, 2022 from amounts included in deferred revenue as of December 31, 2021 was approximately \$3.7 million. Revenue recognized during the year ended December 31, 2021 from amounts included in deferred revenue as of December 31, 2020 was approximately \$4.2 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 the benefit in a manner that is consistent with the transfer of the related goods or services to which the asset relates. We impair the asset when recoverability is not anticipated. We capitalized a portion of commission expense, implementation and other costs that represents the cost to obtain a contract. The remaining unamortized contract costs were \$1.0 million and \$1.5 million as of December 31, 2022 and 2021, respectively. They are included in other current assets and other assets on our balance sheet. For the years presented, no impairment was recognized.

Note D - Leases

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 one year to eight years, some of which may include options to extend the leases for up to an additional five years.

We sublease our Fullerton (CA), Jacksonville (FL) and Uxbridge (UK) facilities. The leases and subleases for these three facilities expire at various dates, the latest being in fiscal year 2024.

As of December 31, 2022, assets recorded under finance and operating leases were approximately \$0.6 million and \$18.6 million respectively, and accumulated amortization associated with finance leases was \$1.0 million. As of December 31, 2021 assets recorded under finance and operating leases were approximately \$0.8 million and \$21.4 million respectively, and accumulated depreciation associated with finance leases was \$0.7 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.

During the year ended December 31, 2021, we impaired three leases for the facilities we no longer occupied. The resulting impairment and early termination charges are included in our restructuring expenses for the year ended December 31, 2021. There is no impairment of leases in the year ended December 31, 2022.

The following tables present supplemental balance sheet information related to our financing and operating leases:

In thousands	As of December 31, 2022		
	Operating Leases	Finance Leases	Total
Right-of-use Assets	\$ 18,574	\$ 595	\$ 19,169
Liabilities			
Short-term lease liabilities	5,587	160	5,747
Long-term lease liabilities	16,523	52	16,575
Total Lease Liabilities	\$ 22,110	\$ 212	\$ 22,322
In thousands	As of December 31, 2021		
	Operating Leases	Finance Leases	Total
Right-of-use Assets	\$ 21,382	\$ 760	\$ 22,142
Liabilities			
Short-term lease liabilities	6,359	194	6,553
Long-term lease liabilities	19,004	211	19,215
Total Lease Liabilities	\$ 25,363	\$ 405	\$ 25,768

For the year ended December 31, 2022 and 2021, the components of lease expense were as follows:

In thousands	Year Ended December 31,	Year Ended December 31,
	2022	2021
Operating lease cost	\$ 5,832	\$ 7,745
Finance lease cost		
Amortization of right-of-use assets	166	195
Interest on lease liabilities	16	27
Total Finance lease cost	182	222
Variable lease cost	1,899	2,604
Sublease income	(828)	(1,153)
Total lease cost, net	\$ 7,085	\$ 9,418

Other information related to leases was as follows:

In thousands	Year Ended December 31, 2022	Year Ended December 31, 2021
Supplemental Cash Flows Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 12,698	\$ 15,287
Operating cash flows from finance leases	15	25
Financing cash flows from finance leases	194	227
Weighted Average Remaining Lease term		
Operating leases	5.92	6.16
Finance leases	1.36	2.16
Weighted Average Discount Rate		
Operating leases	3.55%	3.45%
Finance leases	5.70%	5.41%

The maturities of the Company's finance and operating lease liabilities as of December 31, 2022 are as follows:

In thousands	Operating Leases (1)	Finance Leases
Year Ending December 31,		
2023	\$ 6,226	\$ 166
2024	4,802	48
2025	2,391	6
2026	2,290	—
2027	2,290	—
2028 & Beyond	6,252	—
Total future minimum lease payments	24,251	220
Less: Imputed interest	2,141	8
Total lease liabilities	<u>\$ 22,110</u>	<u>\$ 212</u>

(1) Non-cancelable sublease proceeds for the fiscal year ending December 31, 2023, and 2024 of \$0.4 million and \$0.4 million, respectively, are not included in the table above.

As of December 31, 2022, we have no new operating leases that have 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. On January 30, 2018, we issued 9,926 shares of our Series A Preferred Stock (the "Preferred Shares") to Wipro at an issue price of \$1,000 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 were netted against the gross proceeds of \$9.9 million on our Consolidated Financial Statements.

On June 30, 2022, the Company entered into a share repurchase agreement (the "Repurchase Agreement") with Wipro, pursuant to which the Company agreed to repurchase all 9,926 shares of the Preferred Stock then outstanding in exchange for (i) a cash payment equal to its liquidation value, or total cash payment of \$9,926,000 and (ii) 100,000 shares of the Company's common stock, par value \$1.00 per share (the "Common Stock"). The cash portion of the repurchase price was previously paid into escrow at the signing of the Repurchase Agreement on June 30, 2022 and held in escrow by PNC Bank, National Association, pending the reissuance of the Preferred Stock from the State of New Jersey. Other than the release of previously escrowed funds, no additional cash was paid by Harte Hanks at closing.

On December 2, 2022, we completed the closing of our June 30, 2022 definitive agreement with Wipro to repurchase all of our outstanding Preferred Stock from Wipro, the sole holder of the Preferred Stock.

Series A Preferred Stock had 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 (collectively, a "Liquidation"), 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) 5.0% each year, or (ii) the rate that cash dividends are paid in respect of shares 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 (the "Board"). Dividends are payable solely upon a Liquidation, and only if prior to such Liquidation such shares of Series A Preferred Stock have not been converted to common 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 issuance 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 exercised 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, 2021.

Note F — Long-Term Debt

Credit Facilities

As of December 31, 2022 and 2021, we had \$0.0 and \$5.0 million of borrowings outstanding under the New Credit Facility (as defined below). As of December 31, 2022, we had the ability to borrow an additional \$24.2 million under the New Credit Facility.

As of December 31, 2022 and 2021, we had letters of credit outstanding in the amount of \$0.8 million and \$1.1 million, respectively. No amounts were drawn against these letters of credit as of December 31, 2022. These letters of credit exist to support insurance programs relating to workers' compensation, automobile, and general liability.

On April 17, 2017, we entered into a secured credit facility with Texas Capital Bank, N.A. ("Texas Capital Bank"), that provided a \$20.0 million revolving credit facility (the "Old Texas Capital Credit Facility") and for letters of credit issued by Texas Capital Bank up to \$5.0 million. Over the term of the Old Texas Capital Credit Facility, we entered into a number of amendments to extend the term and reduce the borrowing capacity. The Old Texas Capital Credit Facility was secured by substantially all of the Company's and its material domestic subsidiaries' assets. The Old Texas Capital Credit Facility was 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). The Old Texas Capital Credit Facility was secured by substantially all our assets and continues to be guaranteed by HHS Guaranty, LLC ("HHS"). Under the Old Texas Capital Credit Facility, we were permitted to elect to accrue interest on outstanding principal balances at either LIBOR plus 1.95% or prime plus 0.75%. Unused commitment balances accrued interest at 0.50%. We were required to pay a quarterly fee of 0.5% of the value of the collateral HHS pledged to secure the facility as consideration for the guarantee, which for the year ended December 31, 2021 amounted to \$0.4 million.

On December 21, 2021, the Company entered a new three-year, \$25,000,000 asset-based revolving credit facility (the "New Credit Facility") with Texas Capital Bank. The Company's obligations under the New Credit Facility are guaranteed on a joint and several basis by the Company's material subsidiaries (the "Guarantors"). The New Credit Facility is secured by substantially all the assets of the Company and the Guarantors pursuant to a Pledge and Security Agreement, dated as of December 21, 2021, between the Company, Texas Capital Bank and the other grantors party thereto (the "Security Agreement").

The New Credit Facility is subject to certain covenants restricting the Company's and its subsidiaries' ability to create, incur, assume or become liable for indebtedness; make certain investments; pay dividends or repurchase the Company's stock; create, incur or assume liens; consummate mergers or acquisitions; liquidate, dissolve, suspend or cease operations; or modify accounting or tax reporting methods (other than as required by U.S. GAAP). The Company was in compliance with all of the requirements as of December 31, 2022.

The loans under the New Credit Facility accrue interest at a varying rate equal to the Bloomberg Short-Term Bank Yield Index Rate plus a margin of 2.25% per annum. The interest rate was 6.10% as of December 31, 2022. The outstanding amounts advanced under the New Credit Facility are due and payable in full on December 21, 2024. Unused commitment balances accrued fees at a rate of 0.25%.

In connection with entering the New Credit Facility, the Company and Texas Capital Bank terminated the Company's Old Texas Capital Credit Facility. Prior to termination of the Old Texas Capital Credit Facility, the Company used cash on hand to pay down \$12.1 million outstanding under the Old Texas Capital Credit Facility and the remaining \$5.0 million of loans outstanding under the Old Texas Capital Credit Facility were deemed to be outstanding under the New Credit Facility. Unlike the Old Texas Capital Credit Facility, Texas Capital Bank did not require the New Credit Facility to be guaranteed by HHS.

Cash payments for interest were \$0.3 million and \$0.5 million for the years ended December 31, 2022 and 2021, respectively.

Paycheck Protection Program Term Note

On April 14, 2020, the Company entered a promissory note with Texas Capital Bank, for an unsecured loan with a principal amount of \$10.0 million made to the Company pursuant to the Paycheck Protection Program ("PPP Term Note") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act").

The proceeds were used to maintain payroll or make certain permitted interest payments, lease payments and utility payments.

We applied for forgiveness of the entire \$10.0 million PPP Term Note in the first quarter of 2021 because we used the proceeds from the loan as contemplated under the CARES Act. On June 10, 2021, we received notice that the entire amount of our PPP Loan was forgiven by the SBA. We recorded the \$10.0 million of debt extinguishment as "Gain from extinguishment of debt" in the Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2021.

Note G — Stock-Based Compensation

We maintain stock incentive plans for the benefit of certain officers, directors, and employees. Our stock incentive plans provide for the ability to issue stock options, cash stock appreciation rights, performance stock units, phantom stock units and cash performance stock units. Our cash stock appreciation rights, phantom stock units and cash performance stock units settle solely in cash and are treated as the current liability, which are adjusted each reporting period based on changes in our stock price.

Compensation expense for stock-based awards is based on the fair values of the awards on the date of grant and is recognized on a straight-line basis over the vesting period of the entire award in the “Labor” line of the Consolidated Statements of Comprehensive Income. We recognized \$2.4 million and \$1.5 million of stock-based compensation expense for the years ended December 31, 2022 and 2021, respectively.

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 a Form S-8 to increase the total registered shares under 2013 Plan to 553,673 shares. As of December 31, 2022 and 2021, there were 188,582 and 188,285 shares available, respectively, for grant under the 2013 Plan.

In 2020, we established our 2020 Equity Incentive Plan (“2020 Plan”) which replaced the 2013 Equity Incentive Plan (“2013 Plan”). Any shares of common stock that remained eligible for issuance under the 2013 Plan are now instead eligible for issuance under the 2020 Plan. In August 2020, we filed a Form S-8 to register up to an aggregate of 2,521,244 shares that may be issued under the 2020 Plan. The 2020 Plan provides for the issuance of stock-based awards to directors, employees and consultants. No additional stock-based awards will be granted under the 2013 Plan, but awards previously granted under the 2013 Plan will remain outstanding in accordance with their respective terms. As of December 31, 2022 and 2021, there were 1.3 million and 1.6 million shares available, respectively, for grant under the 2020 Plan.

We granted equity awards to our Chief Executive Officer and Chief Operating Officer in 2021, as a material inducement for acceptance of such positions. These options, restricted stock, and performance unit awards were not issued under the 2020 Plan and were not submitted for stockholder approval.

Stock Options

Options granted under the 2020 Plan, 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. There were no options outstanding under the 2020 plan as of December 31, 2022 and 2021.

Options to purchase 8,268 shares granted under 2013 Plan awards were outstanding as of December 31, 2022, with exercise prices ranging from \$76.80 to \$115.20 per share. There were no inducement award options outstanding as of December 31, 2022 and 2021.

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 4,400 shares were outstanding under the 2005 Plan as of December 31, 2022, with exercise prices ranging from \$76.80 to \$115.20 per share. Options to purchase 29,050 shares were outstanding under the 2005 Plan as of December 31, 2021, with exercise prices ranging from \$76.80 to \$184.65 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).

The following summarizes all stock option activity during the years ended December 31, 2022 and 2021:

In thousands	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Thousands)
Options outstanding at December 31, 2020	87,747	\$ 40.25		
Adjustment and Correction	—	—		
Granted in 2021	—	—		
Exercised in 2021	(31,906)	2.95		—
Unvested options forfeited in 2021	(7,411)	7.40		
Vested options expired in 2021	(10,815)	37.87		
Options outstanding at December 31, 2021	37,615	\$ 80.21	1.36	
Adjustment & Correction	(20,000)			
Granted in 2022	—	—		
Exercised in 2022	—			—
Unvested options forfeited in 2022	—			
Vested options expired in 2022	(4,947)	95.80		
Options outstanding at December 31, 2022	12,668	\$ 78.88	1.16	—
Vested and expected to vest at December 31, 2022	12,668	\$ 78.88	1.16	—
Exercisable at December 31, 2022	12,668	\$ 78.88	1.16	—

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, 2022. The pre-tax intrinsic value is the difference between the closing price of our common stock on December 31, 2022 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, 2022:

Range of Exercise Prices	Number Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number Exercisable	Weighted-Average Exercise Price
\$76.80 - 115.20	12,668	\$ 78.88	1.16	12,668	\$ 78.88

No options were granted during 2022 and 2021. As of December 31, 2022, there was no unrecognized compensation cost related to unvested stock options.

Cash Stock Appreciation Rights

In 2016 and 2017, the Board of Directors 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.

There were no cash stock appreciation rights issued during 2022 and 2021.

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, 2022, 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 2020 Plan and 2013 Plan vest in three equal increments on the first three anniversaries of their date of grant. Restricted stock units settle in treasury stock or newly issued shares 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 2022 and 2021:

	Number of Shares	Weighted- Average Grant Date Fair Value
Unvested shares outstanding at December 31, 2020	789,709	\$ 2.22
Granted in 2021	500,890	5.72
Vested in 2021	(396,407)	3.00
Forfeited in 2021	(247,753)	2.35
Unvested shares outstanding at December 31, 2021	646,439	4.41
Adjustment and Correction	40,000	
Granted in 2022	208,165	8.93
Vested in 2022	(296,161)	4.85
Forfeited in 2022	(82,267)	3.29
Unvested shares outstanding at December 31, 2022	516,176	6.43

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 prior to the grant. As of December 31, 2022, there was \$2.4 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 1.89 years.

Phantom Stock Units

In 2016 and 2017, the Board of Directors 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 2022 and 2021:

	Number of Units	Weighted- Average Grant Date Fair Value
Phantom stock units outstanding as of December 31, 2020	4,346	\$ 9.70
Granted in 2021	—	—
Vested in 2021	(4,146)	9.70
Forfeited in 2021	(200)	9.70
Phantom stock units outstanding as of December 31, 2021	—	—

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 prior to the 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, 2022, there was no unrecognized compensation cost related to phantom stock units.

Performance Stock Units

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). Performance Stock Units have been issued under the 2013 Plan, and the 2020 Plan as inducement awards.

The following summarizes all performance stock unit activity during 2022 and 2021:

	Number of Units	Weighted- Average Grant- Date Fair Value
Performance stock units outstanding as of December 31, 2020	32,268	\$ 4.14
Granted in 2021	75,000	5.59
Settled in 2021	(13,158)	3.30
Forfeited in 2021	—	
Performance stock units outstanding as of December 31, 2021	94,110	\$ 5.41
Granted in 2022	117,000	7.77
Settled in 2022	(69,110)	5.44
Forfeited in 2022	—	
Performance stock units outstanding as of December 31, 2022	142,000	7.34

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 prior to the 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, 2022, the total unrecognized compensation cost related to performance stock units was approximately \$637,040. This cost is expected to be recognized over a weighted average period of approximately 1.17 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).

There was no cash performance stock unit issued during 2022 and 2021.

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 prior to the 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, 2022, 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.

At the end of 2020, the Board of Directors of the Company approved the division of the Qualified Pension Plan into two distinct plans, “Qualified Pension Plan I” and “Qualified Pension Plan II.” The assets and liabilities of the Qualified Pension Plan that were attributable to certain participants in Qualified Pension Plan II were spun off and transferred into Qualified Pension Plan II effective as of the end of December 31, 2020, in accordance with Internal Revenue Code section 414 (I) and ERISA Section 4044.

In January 2023, the Board of Directors of the Company approved the termination of the Qualified Pension Plan I. The termination process will take approximately 18 months to complete and will result in the transfer of our obligations pursuant to this pension plan to a third-party provider.

The overfunded or underfunded status of our defined benefit post-retirement plans is recorded as an asset or liability on our balance sheets. 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 in the Consolidated Statements of 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,	
	2022	2021
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 186,041	\$ 198,586
Interest cost	5,040	4,674
Actuarial gain	(37,014)	(6,610)
Benefits paid	(10,546)	(10,609)
Benefit obligation at end of year	\$ 143,521	\$ 186,041
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 131,741	\$ 129,348
Actual return on plan assets	(20,358)	10,977
Contributions	3,053	2,025
Benefits paid	(10,545)	(10,609)
Fair value of plan assets at end of year	\$ 103,891	\$ 131,741
Funded status at end of year	\$ (39,630)	\$ (54,300)

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

In thousands	2022	2021
Current pension liabilities	\$ 1,858	\$ 1,801
Long term pension liabilities - Qualified plans	18,674	27,359
Long term pension liabilities - Nonqualified plan	19,098	25,140
Total pension liabilities	\$ 39,630	\$ 54,300

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

In thousands	2022	2021
Net loss	\$ 44,120	\$ 54,394

Based on current estimates, we will be required to make \$1.6 million in contributions to our Qualified Pension Plan II, in 2023.

We are not required to make and do not intend to make any contributions to our Restoration Pension Plan in 2023 other than to the extent needed to cover benefit payments. We made benefit payments under this supplemental plan of \$1.8 million in 2022.

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

In thousands	2022	2021
Projected benefit obligation	\$ 143,521	\$ 186,041
Accumulated benefit obligation	\$ 143,521	\$ 186,041
Fair value of plan assets	\$ 103,891	\$ 131,741

The Restoration Pension Plan had an accumulated benefit obligation of \$21.0 million and \$26.9 million as of December 31, 2022 and 2021, respectively.

The following table presents the components of net periodic benefit cost and other amounts recognized in other comprehensive income in the Consolidated Statements of Comprehensive Income for both plans:

In thousands	Year Ended December 31,	
	2022	2021
Net Periodic Benefit Cost		
Interest cost	\$ 5,040	\$ 4,674
Expected return on plan assets	(5,872)	(6,754)
Recognized actuarial loss	2,876	3,441
Net periodic benefit cost	<u>2,044</u>	<u>1,361</u>
Amounts Recognized in Other Comprehensive Income		
Adjustment to pension liabilities	(10,274)	(14,150)
Net cost recognized in net periodic benefit cost and other comprehensive income	<u>\$ (8,230)</u>	<u>\$ (12,789)</u>

The components of net periodic benefit costs other than the service cost component are included in Other, net in our Consolidated Statement of Comprehensive Income. The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost in 2022 is \$2.5 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 16.2 years for Qualified Pension Plan I and approximately 25.6 years for Qualified Pension Plan II). 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,	
	2022	2021
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate		
Qualified Plan I	2.75%	2.37%
Qualified Plan II	2.92%	2.61%
Restoration Plan	2.73%	2.34%
Expected return on plan assets		
Qualified Plan I	4.25%	5.50%
Qualified Plan II	5.75%	4.75%
Restoration Plan	n/a	n/a
	December 31,	
	2022	2021
Weighted-average assumptions used to determine benefit obligations		
Discount rate		
Qualified Plan I	5.13%	2.75%
Qualified Plan II	5.18%	2.92%
Restoration Plan	5.12%	2.73%

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, 2022 and 2021, by asset category, were as follows:

In thousands	2022		2021	
		%		%
Equity securities	\$ 50,090	48%	\$ 66,324	50%
Debt securities	49,846	48%	61,689	47%
Other	3,955	4%	3,728	3%
Total plan assets	<u>\$ 103,891</u>	<u>100%</u>	<u>\$ 131,741</u>	<u>100%</u>

The fair values presented have been prepared using values and information available as of December 31, 2022 and 2021.

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

In thousands	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 50,090	\$ 50,090	\$ —	\$ —
Debt securities	49,846	35,575	14,271	—
Total investments, excluding investments valued at NAV	99,936	85,665	14,271	—
Investments valued at NAV (1)	3,955	—	—	—
Total plan assets	\$ 103,891	\$ 85,665	\$ 14,271	\$ —

In thousands	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 66,324	\$ 66,324	\$ —	\$ —
Debt securities	61,689	56,838	4,851	—
Total investments, excluding investments valued at NAV	128,013	123,162	4,851	—
Investments valued at NAV (1)	3,728	—	—	—
Total plan assets	\$ 131,741	\$ 123,162	\$ 4,851	\$ —

(1) Investment valued at net asset value ("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.

Management identified an error in the prior year classification of investments. Certain investments were incorrectly disclosed as Level 2 investments when they were, in fact, Level 1 investments. Management has concluded that this error in disclosure is qualitatively immaterial to the consolidated financial statements. The prior year investments in error have been reclassified to Level 1.

The investment policy for the Qualified Pension Plans 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:

Qualified Pension Plan I	Target	Acceptable Range	Benchmark Index
Equities	39%	24% - 54%	
U.S. Large Cap	14%	9% - 19%	Russell 1000 TR
U.S. Mid Cap	9%	4% - 14%	Russell Mid Cap Index TR
U.S. Small Cap	5%	0% - 10%	Russell 2000 TR
International Equity			
Developed	8%	3% - 13%	MSCI EAFE Net TR USD Index
Emerging Markets	3%	0% - 6%	MSCI Emerging Net Total Return
Fixed Income	59%	44% - 74%	
Investment Grade	59%	44% - 74%	BBG BARC US Aggregate Bond Index
Cash Equivalent	2%	0%-40%	ICE BofA US 3-Month Treasury Bill Index TR

Qualified Pension Plan II	Target	Acceptable Range	Benchmark Index
Equities	77%	62% - 87%	
U.S. Large Cap	28%	18% - 38%	Russell 1000 TR
U.S. Mid Cap	18%	13% - 23%	Russell Mid Cap Index TR
U.S. Small Cap	9%	4% - 14%	Russell 2000 TR
International Equity			
Developed	16%	11% - 21%	MSCI EAFE Net TR USD Index
Emerging Markets	6%	0% - 9%	MSCI Emerging Net Total Return
Fixed Income	21%	11% - 31%	
Investment Grade	21%	11% - 31%	BBG BARC US Aggregate Bond Index
Cash Equivalent	2%	0%-40%	ICE BofA US 3-Month Treasury Bill Index TR

The funded pension plans provide 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 these plans. 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, 2022 are as follows:

In thousands		
2023	\$	11,253
2024		11,297
2025		11,343
2026		11,450
2027		11,588
2028 - 2032		56,404
Total	\$	113,335

The Company also has two pension plans in its foreign jurisdictions, the associated pension liabilities are not material.

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 and resumed it in 2022. We incurred \$1.2 million in 401k match expense in 2022.

Note I — Income Taxes

Coronavirus Aid, Relief and Economic Security Act

In response to the COVID-19 pandemic, the CARES Act was signed into law in March 2020. The CARES Act lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 ("2017 Tax Act"). Under the CARES Act, corporate taxpayers may carryback net operating losses ("NOLs") realized during 2018 through 2020 for up to five years, which was not previously allowed under the 2017 Tax Act. The CARES Act also eliminates the 80% of taxable income limitations by allowing corporate entities to fully utilize NOL carryforwards to offset taxable income in 2018, 2019 or 2020. Taxpayers may generally deduct interest up to the sum of 50% of adjusted taxable income plus business interest income (30% limit under the 2017 Tax Act) for tax years beginning January 1, 2019 and 2020. The CARES Act allows taxpayers with alternative minimum tax credits to claim a refund in 2020 for the entire amount of the credits instead of recovering the credits through refunds over a period of years, as originally enacted by the 2017 Tax Act. In addition, the CARES Act raises the corporate charitable deduction limit to 25% of taxable income and makes qualified improvement property generally eligible for 15-year cost-recovery and 100% bonus depreciation. As of December 31, 2020, the Company filed federal net operating loss carryback claims resulting in an income tax refund for \$6.4 million and \$3.2 million for tax years 2019 and 2018, respectively. As of December 31, 2022, the Company has received the tax refunds for the tax years 2019 and 2018 and \$2.5 million of income tax refunds from the carryback of the loss generated in 2020. We have received the remaining tax refund of \$5.3 million in March 2023.

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

In thousands	Year Ended December 31,	
	2022	2021
Current		
Federal	\$ 60	\$ (372)
State and local	774	856
Foreign	1,546	804
Total current	\$ 2,380	\$ 1,288
Deferred		
Federal	\$ (11,496)	\$ —
State and local	(8,347)	—
Total deferred	\$ (19,843)	\$ —
Total income (benefit) expense	\$ (17,463)	\$ 1,288

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

In thousands	Year Ended December 31,	
	2022	2021
United States	\$ 10,252	\$ 11,725
Foreign	9,061	4,534
Total income before income taxes	\$ 19,313	\$ 16,259

The provision (benefit) for income taxes is based on the various rates set by federal, foreign and local authorities and is affected by permanent and temporary differences between financial accounting and tax reporting requirements. The principal reasons for the difference between the statutory rate and the annual effective rate for 2022 were the impact of the release of the majority of the U.S. valuation allowance, federal and foreign income tax credits, and the benefit of excess stock benefits on vested restricted stock, offset by flow-through partnership income from a United Kingdom affiliate. The principal reasons for the difference between the statutory rate and the annual effective rate for 2021 were the impact of the flow-through partnership income from a United Kingdom affiliate offset by gain on PPP Term Note forgiveness and a change in valuation allowance.

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

In thousands	Year Ended December 31,	
	2022	2021
Computed expected income tax expense (benefit)	\$ 4,056	\$ 3,413
Permanent Differences	91	172
Net effect of state income taxes	1,074	520
Foreign subsidiary dividend inclusions	639	447
Foreign tax rate differential	(349)	(224)
Change in valuation allowance	(18,243)	(1,424)
CARES Act NOL Carryback	—	(343)
Stock-based compensation windfalls	(365)	(244)
Return to Provision	(141)	247
Change in Rate	(2,172)	(373)
Credits	(1,126)	(403)
Adjustments to State Attributes	(1,330)	1,561
Gain on PPP Loan Forgiveness	—	(2,122)
Other Adjustments, net	403	61
Income tax (benefit) expense	<u>\$ (17,463)</u>	<u>\$ 1,288</u>

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

In thousands	Year Ended December 31,	
	2022	2021
Income (loss) from operations	\$ (17,463)	\$ 1,288
Stockholders' equity (deficit)	—	—
Total	<u>\$ (17,463)</u>	<u>\$ 1,288</u>

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,	
	2022	2021
Deferred tax assets		
Deferred compensation and retirement plan	\$ 10,246	\$ 13,135
Accrued expenses not deductible until paid	33	181
Lease liability	5,591	5,873
Employee stock-based compensation	491	385
Accrued payroll not deductible until paid	103	96
Accounts receivable, net	43	59
Investment in foreign subsidiaries, outside basis difference	1,047	1,019
Goodwill	445	473
Interest Expense limitations	913	1,267
Other, net	585	452
Foreign net operating loss carryforwards	1,623	1,631
State net operating loss carryforwards	5,184	3,475
Foreign tax credit carryforwards	4,212	3,841
General Business Credit Carryovers	546	215
Total gross deferred tax assets	31,062	32,102
Less valuation allowances	(7,652)	(25,894)
Net deferred tax assets	\$ 23,410	\$ 6,208
Deferred tax liabilities		
Property, plant and equipment	\$ (2,024)	\$ (897)
Right-of-use asset	(4,765)	(5,006)
Prepaid Expenses	(228)	(305)
Other, net	(87)	—
Total gross deferred tax liabilities	(7,104)	(6,208)
Net deferred tax assets (liabilities)	\$ 16,306	\$ —

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. After considering the weight of available information, (most notably the Company's sustained profitability over the past two years), the Company concluded that it is more-likely-than-not that it will realize the majority of its U.S. deferred tax assets. Certain foreign tax credits as well as certain state net operating loss carryovers will continue to have a valuation allowance until there is substantial evidence that enough future taxable income exists at a more likely than not level in order to utilize those deferred tax assets. The valuation allowance for deferred tax assets was \$7.7 million and \$25.9 million as of December 31, 2022 and 2021, respectively. The change in the valuation allowance is \$18.2 million for the year ended December 31, 2022.

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 2017. For U.S. federal and foreign returns, we are no longer subject to tax examinations for years prior to 2017.

There is no balance of unrecognized tax benefits as of December 31, 2022 and 2021. Any adjustments to this liability as a result of the finalization of audits or potential settlements would not be material.

We have elected to classify any interest and penalties related to income taxes within income tax expense in our Consolidated Statements of Comprehensive Income.

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, 2022, the Company had no federal net operating loss carryforward. The federal foreign tax carryforward credits of \$4.2 million will expire on various dates from 2023 to 2032. Federal general business credit carryforwards of \$0.5 million will begin to expire on various dates from 2040 to 2042. The Company has state NOL carryforwards of \$105.7 million, and foreign NOL carryforwards of \$5.4 million.

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 — Earnings Per Share

In periods in which the Company has net income, the Company is required to calculate earnings per share (“EPS”) using the two-class method. The two-class method is required because the Company’s Series A Preferred Stock is considered a participating security with objectively determinable and non-discretionary dividend participation rights. Series A 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 calculation would be anti-dilutive.

Reconciliations of basic and diluted EPS are as follows:

In thousands, except per share amounts	Year Ended December 31,	
	2022	2021
Numerator:		
Net income	\$ 36,776	\$ 14,971
Less: Loss from redemption of Preferred stock	1,380	—
Less: Preferred stock dividend	—	496
Less: Earnings attributable to participating securities	—	1,858
Numerator for basic EPS: income attributable to common stockholders	35,396	12,617
Effect of dilutive securities:		
Add back: Allocation of earnings to participating securities	—	1,858
Less: Re-allocation of earnings to participating securities considering potentially dilutive securities	—	(1,766)
Numerator for diluted EPS	\$ 35,396	\$ 12,709
Denominator:		
Basic EPS denominator: weighted-average common shares outstanding	7,101	6,802
Diluted EPS denominator	7,457	7,209
Basic income per common share	\$ 4.98	\$ 1.85
Diluted income per common share	\$ 4.75	\$ 1.76

For the years ended December 31, 2022 and 2021, respectively, the following shares have been excluded from the calculation of shares used in the diluted EPS calculation: 13,366 and 46,380 shares of anti-dilutive market price options; 24,918 and 29,983 anti-dilutive unvested shares.

Note K — Comprehensive Income

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

Changes in accumulated other comprehensive loss by component were as follows:

In thousands	Defined Benefit	Foreign	Total
	Pension Items	Currency Items	
Balance at December 31, 2020	\$ (68,544)	\$ 2,933	\$ (65,611)
Other comprehensive loss, net of tax, before reclassifications	—	(1,867)	(1,867)
Amounts reclassified from accumulated other comprehensive loss, net of tax	14,150	—	14,150
Net current period other comprehensive income (loss), net of tax	14,150	(1,867)	12,283
Balance at December 31, 2021	\$ (54,394)	\$ 1,066	\$ (53,328)
Other comprehensive income, net of tax, before reclassifications	—	(5,248)	(5,248)
Amounts reclassified from accumulated other comprehensive loss, net of tax	10,274	—	10,274
Net current period other comprehensive income, net of tax	10,274	(5,248)	5,026
Balance at December 31, 2022	\$ (44,120)	\$ (4,182)	\$ (48,302)

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 — Acquisition of Inside Out Solutions, LLC

On December 1, 2022, we purchased substantially all of the assets (the “Transaction”) of Inside Out Solutions, LLC, a Florida limited liability company (“InsideOut”), for an aggregate purchase price of approximately \$7.5 million (the “Purchase Price”) pursuant to an asset purchase agreement, dated as of December 1, 2022 by and between Harte Hanks and InsideOut (the “Asset Purchase Agreement”).

InsideOut is a premium sales enablement agency offering technology and data driven support to technology, media telecommunications, business services, industrial, and financial technology customers in the North American and European markets with its headquarters in St. Petersburg, Florida.

The acquisition of InsideOut further expands our capabilities within its marketing services and customer care segments and strengthens our ability to drive profitable revenue growth within our current sales enablement offerings, including: (i) demand generation which creates qualified marketing leads for our clients, and (ii) inside sales offerings to further promote a client’s internal growth objectives. In addition, the owner and CEO of InsideOut entered into a two-year consulting agreement with the Company, which will ensure consistency in our delivery of these sales enablement offerings, post-closing.

Pursuant to the Asset Purchase Agreement, \$5.75 million of the Purchase Price was paid in cash at closing, \$1.0 million in cash was placed in escrow to satisfy indemnification obligations, if any, and separately, to satisfy earn-outs related to future revenue performance. Separately, \$0.75 million of the Purchase Price was paid at closing in shares of Harte Hanks common stock, par value \$1.00 per share (the “Common Stock”). The share amount was based on the volume weighted closing price over the 15 trading days ending on November 28, 2022. \$1.0 million cash in escrow account is included in other current assets in our balance sheet as of December 31, 2022.

The Purchase Price is subject to a post-closing net working capital true-up 180-days after the Transaction closes if net working capital is not between \$1.3 million and \$1.6 million.

The acquisition was accounted for under the acquisition method of accounting with the Company treated as the acquiring entity. Accordingly, the consideration paid by the Company to complete the acquisition has been recorded to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of the acquisition. The carrying values for current assets and liabilities were deemed to approximate their fair values due to the short-term nature of these assets and liabilities. The following table shows the amounts recorded as of their acquisition date.

in thousands	Amount
Accounts receivable	\$ 1,445
Prepaid expenses	148
Property, plant and equipment	177
Total assets acquired	1,770
Less: Current liabilities assumed	(761)
Net assets acquired	\$ 1,009

We recognized \$3.6 million of intangible assets and \$2.4 million of goodwill associated with this acquisition. The amount of goodwill recorded reflects expected earning potential and synergies with our Customer Care segment. We are amortizing the intangible assets on a straight-line basis over its useful life of five years. A summary of the Company’s intangible asset as of December 31, 2022 is as follows:

In thousands	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortizations	Net Carrying Amount
Customer Relationships	5 years	3,600	60	3,540

Estimated future amortization expense related to intangible assets as of December 31, 2022 is as follows:

In thousands

Year Ending December 31,	Amount
2023	\$ 720
2024	720
2025	720
2026	720
2027	660
Total	\$ 3,540

The Company's result of operations for the year ended December 31, 2022 includes revenue of \$1.0 and net earnings of \$0.2 million from the InsideOut operation from the date of acquisition through December 31, 2022.

Note M — 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 business and, from time to time, we may become involved in additional claims and lawsuits incidental to our business. 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 N — Certain Relationships and Related Party Transactions

As described in Note F, *Long-Term Debt*, the Company's Old Texas Capital Credit Facility was 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). The arrangement was terminated in connection with the entry into the New Credit Facility because Texas Capital Bank did not require third-party credit support for the borrowings under the New Credit Facility.

Note O — Restructuring Activities

Our management team continuously reviews and adjusts our cost structure and operating footprint, optimize our operations, and invest in improved technology. During 2020, in an effort to right-size our operating footprint, we terminated leases in Wilkes Barre (PA) and Grand Prairie (TX) and exited our last direct mail facility in Jacksonville (FL). We completed the migration of our fulfillment business from the Grand Prairie (TX) operations into a new 400,000 square foot facility in Kansas City (KS) in December 2020. In the first quarter of 2021, we completed the migration of our Shawnee (KS) operations to Kansas City (KS). The new Kansas City location is now our primary facility in the Midwest. In 2020, we also reduced the footprint of our Customer Care business by reducing our Austin (TX) office location by approximately 50,000 square feet in addition to exiting one of our two Manila offices as the business was operating effectively in a work-from-home environment.

In connection with our cost-saving and restructuring initiatives, we incurred total restructuring charges of \$27.6 million through the end of 2021. We completed our restructuring in 2021, and did not incur any additional restructuring expenses in 2022.

For the year ended December 31, 2021, we recorded restructuring charges of \$6.4 million. The 2021 restructuring charges included \$2.5 million of severance charges, \$0.9 million in lease impairment expense and \$3.0 million of facility related and other expenses.

The following table summarizes the restructuring charges which are recorded in “Restructuring Expense” in the Consolidated Statement of Comprehensive Income.

In thousands	Year Ended December 31, 2021
Severance	2,482
Facility, asset impairment and other expense	
Lease impairment and termination expense	868
Fixed Asset disposal and impairment charges	33
Facility and other expenses	2,976
Total facility, asset impairment and other expense	3,877
Total	\$ 6,359

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

In thousands	Year Ended December 31, 2022		
	Severance	Facility, asset impairment and other expense	Total
Beginning balance:	\$ 738	\$ —	\$ 738
Additions	—	—	—
Payments and adjustment	(726)	—	(726)
Ending balance:	\$ 12	\$ —	\$ 12

In connection with our cost-saving and restructuring initiatives, we incurred total restructuring charges of \$27.6 million through the end of 2021. For the years ended December 31, 2021, 2020 and 2019, we recognized \$6.4 million, \$9.4 million and \$11.8 million of restructuring expense, respectively. We do not expect to incur additional restructuring charges after 2021.

Note P — Segment Reporting

Harte Hanks is a leading global customer experience company. We have organized our operations into three business segments based on the types of products and services we provide: Marketing Services, Customer Care, Fulfillment & Logistics Services.

Our Marketing Services segment leverages data, insight, and experience to support clients as they engage customers through digital, traditional, and emerging channels. We partner with clients to develop strategies and tactics to identify and prioritize customer audiences in B2C and B2B transactions. Our key service offerings include strategic business, brand, marketing and communications planning, data strategy, audience identification and prioritization, predictive modeling, creative development and execution across traditional and digital channels, website and app development, platform architecture, database build and management, marketing automation, and performance measurement, reporting and optimization.

Our Customer Care segment offers intelligently responsive contact center solutions, which use real-time data to effectively interact with each customer. Customer contacts are handled through phone, e-mail, social media, text messaging, chat and digital self-service support. We provide these services utilizing our advanced technology infrastructure, human resource management skills and industry experience.

Our Fulfillment & Logistics Services segment consists of mail and product fulfillment and logistics services. We offer a variety of product fulfillment solutions, including printing on demand, managing product recalls, and distributing literature and promotional products to support B2B trade, drive marketing campaigns, and improve customer experience. We are also a provider of third-party logistics and freight optimization in the United States. Prior to the sale of our direct mail equipment in 2020, this segment also included our direct mail operations. Outsourced direct mail is now included in our Marketing Services segment.

There are three principal financial measures reported to our CEO (the chief operating decision maker) for use in assessing segment performance and allocating resources. Those measures are revenue, operating income and operating income plus depreciation and amortization (“EBITDA”). Operating income for segment reporting, disclosed below, is revenues less operating costs and allocated corporate expenses. Segment operating expenses include allocations of certain centrally incurred costs such as employee benefits, occupancy, information systems, accounting services, internal legal staff, and human resources administration. These costs are allocated based on actual usage or other appropriate methods. Unallocated corporate expenses are corporate overhead expenses not attributable to the operating groups. Interest income and expense are not allocated to the segments. The Company does not allocate assets to our reportable segments for internal reporting purposes, nor does our CEO evaluate operating segments using discrete asset information. The accounting policies of the segments are consistent with those described in the Note A, *Overview and Significant Accounting Policies*.

The following table presents financial information by segment:

Year ended December 31, 2022	Marketing Services	Customer Care	Fulfillment & Logistics Services	Restructuring	Unallocated Corporate	Total
			(In thousands)			
Revenues	\$ 52,975	\$ 67,205	\$ 86,098	\$ —	\$ —	\$ 206,278
Segment operating expense	\$ 41,241	\$ 52,173	\$ 72,180	\$ —	\$ 22,849	\$ 188,443
Restructuring	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Contribution margin	\$ 11,734	\$ 15,032	\$ 13,918	\$ —	\$ (22,849)	\$ 17,835
Overhead Allocation	\$ 4,390	\$ 2,865	\$ 3,325	\$ —	\$ (10,580)	\$ —
EBITDA	\$ 7,344	\$ 12,167	\$ 10,593	\$ —	\$ (12,269)	\$ 17,835
Depreciation and amortization	\$ 362	\$ 884	\$ 824	\$ —	\$ 658	\$ 2,728
Operating income (loss)	\$ 6,982	\$ 11,283	\$ 9,769	\$ —	\$ (12,927)	\$ 15,107
Year ended December 31, 2021	Marketing Services	Customer Care	Fulfillment & Logistics Services	Restructuring	Unallocated Corporate	Total
			(In thousands)			
Revenues	\$ 56,388	\$ 74,691	\$ 63,517	\$ —	\$ —	\$ 194,596
Segment operating expense	\$ 44,251	\$ 59,200	\$ 53,666	\$ —	\$ 20,922	\$ 178,039
Restructuring	\$ —	\$ —	\$ —	\$ 6,359	\$ —	\$ 6,359
Contribution margin	\$ 12,137	\$ 15,491	\$ 9,851	\$ (6,359)	\$ (20,922)	\$ 10,198
Overhead Allocation	\$ 4,424	\$ 2,922	\$ 3,153	\$ —	\$ (10,499)	\$ —
EBITDA	\$ 7,713	\$ 12,569	\$ 6,698	\$ (6,359)	\$ (10,423)	\$ 10,198
Depreciation and amortization	\$ 530	\$ 849	\$ 718	\$ —	\$ 462	\$ 2,559
Operating income (loss)	\$ 7,183	\$ 11,720	\$ 5,980	\$ (6,359)	\$ (10,885)	\$ 7,639

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
Charter Documents	
3(a)	Amended and Restated Certificate of Incorporation as amended through May 5, 1998 (filed as Exhibit 3(e) to the Company's Form 10-Q for the six months ended June 30, 1998).
3(b)	Certificate of Amendment of Incorporation dated January 31, 2018 (filed as Exhibit 3.2 to the Company's Form 8-A/A dated January 31, 2018).
3(c)	Elimination of Certificate of Designation of Rights, Preferences and Privileges of Series A Preferred Stock of Harte Hanks, Inc. (filed as Exhibit 3.1 to the Company's Form 8-K dated March 24, 2023)
3(d)	Fifth Amended and Restated Bylaws (filed as Exhibit 3.1 to the Company's Form 8-K dated December 23, 2015).
Credit Agreements	
10.1(a)	Loan Agreement, dated December 21, 2021, among Harte Hanks, Inc. the subsidiary guarantors party thereto and Texas Capital Bank, National Association.
10.1(b)	Security Agreement, dated December 21, 2021, between Harte Hanks, Inc. and Texas Capital Bank, National Association. (filed as Exhibit 10.2 to the Company's form 8-K dated December 21, 2021).
Management and Director Compensatory Plans and Forms of Award Agreements	
10.2(a)	Harte Hanks, Inc. Restoration Pension Plan (As Amended and Restated Effective January 1, 2008) (filed as Exhibit 10.1 to the Company's Form 8-K dated June 27, 2008).
10.2(b)	Harte Hanks, Inc. 2005 Omnibus Incentive Plan (As Amended and Restated Effective February 13, 2009) (filed as Exhibit 10.1 to the Company's Form 8-K dated February 13, 2009).
10.2(c)	Amendment to Harte Hanks, Inc. 2005 Omnibus Incentive Plan, dated as of May 12, 2009 (incorporated by reference to Exhibit 4.4 to Harte Hanks Registration Statement on Form S-8, filed on May 12, 2009).
10.2(d)	Form of 2005 Omnibus Incentive Plan Non-Qualified Stock Option Agreement (filed as Exhibit 10.2(i) to the Company's Form 10-K dated March 7, 2012).
10.2(e)	Form of 2005 Omnibus Incentive Plan Bonus Stock Agreement (filed as Exhibit 10.2(j) to the Company's Form 10-K dated March 7, 2012).

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- 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) [Harte Hanks, Inc. 2020 Equity Incentive Plan, dated as of August 3, 2020 \(incorporated by reference to Appendix A of the Company's definitive proxy statement on Schedule 14A as filed with the Commission on May 22, 2020 \(SEC File No. 001-07120\)\).](#)

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) [Employment Agreement between the Company and Brian Linscott, effective as of June 23, 2021 \(filed as Exhibit 10.2 to the company's Form 8-K, dated June 23, 2021\).](#)

Material Agreements

None

Other Exhibits

- *21.1 [Subsidiaries of Harte Hanks, Inc.](#)
- *23.1 [Consent of Baker Tilly US LLP](#)
- *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.INS Inline XBRL Instance Document - the instance document does not appear in the Interactive Data Files because its XBRL tags are embedded within the Inline XBRL Document.
- *101.SCH Inline XBRL Taxonomy Extension Schema Document
- *101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- *101.LAB Inline XBRL Taxonomy Extension Labels Linkbase Document
- *101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- *101.DEF Inline XBRL Definition Linkbase Document
- *104 Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101)

*Filed or furnished herewith, as applicable

SIGNATURES

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

HARTE HANKS, INC.

By: _____ /s/ Brian Linscott
Brian Linscott
Chief Executive Officer

Date: March 31, 2023

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

_____/s/ Brian Linscott
Brian Linscott
Chief Executive Officer
Date: March 31, 2023

_____/s/ Laurilee Kearnes
Laurilee Kearnes
Vice President and Chief Financial Officer
Date: March 31, 2023

_____/s/ John H. Griffin, Jr.
John H. Griffin Jr., Director
Date: March 31, 2023

_____/s/ Genevieve C. Combes
Genevieve C. Combes, Director
Date: March 31, 2023

_____/s/ David L. Copeland
David L. Copeland, Director
Date: March 31, 2023

_____/s/ Radoff, Bradley L
Bradley L. Radoff, Director
Date: March 31, 2023



HARTE HANKS SUBSIDIARY GOVERNANCE MANUAL

Office of the General Counsel

Last Updated: January 04, 2023

PREFACE

This manual is intended to serve as a general reference guide for employees. It provides basic corporate data about Harte Hanks, Inc., each of its current subsidiaries, contact information for subsidiary governance support, an overview of the responsibilities of subsidiary officers and directors, and other subsidiary governance information. This manual does not provide a comprehensive discussion of subsidiary governance matters or local jurisdictional variations with respect to subsidiary governance, and it does not address all potential issues that may arise in any given situation. For assistance with questions or concerns about a particular matter, please consult with one of the individuals listed on Annex A hereto or any other member of the legal team.

Overview

Like many large publicly traded companies, we conduct our business through several separate legal entities, known as our subsidiaries. Each of these subsidiaries are owned, directly or indirectly, by our parent company, Harte Hanks, Inc.

When our employee signs a contract, communicates with a third party or takes other actions in accordance with job responsibilities and internal authority, that employee is ultimately acting on behalf of Harte Hanks, Inc. or one of its direct or indirect subsidiaries, *not on behalf of "Harte Hanks" generally, and not on behalf of all of its subsidiaries.*

Why We Have Subsidiaries

Our global entity structure allows us to plan for national and local taxes, reduce the exposure of subsidiaries to legal risks associated with operations of other subsidiaries, and have greater flexibility in transferring assets. We also want our local subsidiary to have a vested interest in the local community in which they operate.

Powers and Benefits of Subsidiaries

As separate legal entities, each of Harte Hanks, Inc. and its subsidiaries generally has the legal right, subject to appropriate internal corporate authorizations and procedures, to take a variety of actions in its own name, including entering contracts, making expenditures, opening bank accounts, incurring debt, purchasing equipment and other assets and suing (and being sued). Each subsidiary generally has its own corporate officers governing bodies (most commonly a board of directors). Ownership of subsidiaries is evidenced by stock equity interests that are held by Harte Hanks, Inc. or another of its subsidiaries. Because each is a separate legal entity, the liabilities of a subsidiary are generally not attributed to its parent company, any other subsidiary or any other third party.

Authority

Appropriate corporate authorizations must be obtained prior to entering into a transaction or committing a subsidiary to an obligation. All actions taken by employees on behalf of a subsidiary, whether signing a contract, making a regulatory filing or taking any other action for which the subsidiary will be responsible, must be properly authorized. Many day-to-day activities may be generally authorized as part of an employee's overall responsibilities for the subsidiary and other matters may be authorized under applicable internal delegations of authority. Some matters, however, may require additional corporate authorizations, such as approved Project Commitment Forms (PCFs), subsidiary board resolutions and/or Harte Hanks, Inc. board resolutions. Failure to have appropriate internal authorizations prior to entering a transaction or committing a subsidiary to an obligation may subject an employee to disciplinary action, including termination.

Governance & Obligations

After a subsidiary is formed, we must maintain its separate legal existence to achieve the business, tax, risk and liability allocation and other purposes for which it was formed. This continuous maintenance may involve, for example, keeping separate minute books, holding annual organizational meetings to elect directors and appoint officers, making required corporate and tax filings, avoiding commingling funds of one subsidiary with funds of another subsidiary, using appropriate letterhead when communicating with third parties, signing contracts that correctly identify the contracting subsidiary, conducting inter-company transactions between subsidiaries pursuant to arms-length agreements, maintaining adequate capitalization and complying with various other corporate formalities. Failure to follow subsidiary governance formalities may in some cases result in the separate legal existence of the subsidiary being disregarded by a court. In such a case, liability of the disregarded subsidiary could be imposed on owners of that subsidiary or others.

Types and Locations

At present, Harte Hanks has 30 subsidiaries, which are formed in jurisdictions around the world—Philippines, France, England, The Netherlands, as well as U.S. jurisdictions such as Delaware, California, New York and Florida. These subsidiaries take the form of corporations, limited liability companies and other U.S. and foreign types of entities. The type of legal entity is chosen depending on the primary purposes for forming the entity, which in turn affects the formation process, ownership structure, liability of owners, system of management, tax treatment and other aspects of governance.

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HARTE-HANKS DIRECT MARKETING/CINCINNATI, INC.
AAC, (CDC)

STATE OF INCORPORATION:
Ohio

F.I.N.:
31-0969327

PRINCIPLE OFFICE ADDRESS:
2800 Wells Branch Parkway
Austin, TX 78728

DATE INCORPORATED:
10/01/79

COUNTY IN WHICH LOCATED:
Hamilton

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

SHARES
Authorized: 1,000
Outstanding: 1,000

PAR VALUE:
\$1.00

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
None

BOARD OF DIRECTORS:
Brian Linscott

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

HARTE-HANKS RESPONSE MANAGEMENT/BOSTON, INC.
ABO

STATE OF INCORPORATION: Massachusetts	F.I.N.: 04-2210147	
PRINCIPLE OFFICE ADDRESS: 600 North Bedford Street East Bridgewater, MA 02333	DATE INCORPORATED: 10/22/80	
COUNTY IN WHICH LOCATED: Norfolk	AGENT FOR SERVICE OF PROCESS: CT Corporation	
OWNED BY: ZHH (Harte Hanks, Inc.)	PERCENT OWNED: 100%	
SHARES	PAR VALUE:	
Authorized: 5,000	NPV	
Outstanding: 5,000		
REGISTERED ASSUMED NAMES: None	FOREIGN QUALIFICATIONS:	
	New Jersey	(12/29/00)
	California	(10/29/14)
	Louisiana	(12/04/17)
	Kansas	
	Missouri	
	Florida	
	Texas	
	North Carolina	
	New Mexico	
	Ohio	
BOARD OF DIRECTORS: Brian Linscott Laurilee Kearnes Jeanne M. Shaunessy	OFFICERS: Brian Linscott, President Jeanne M. Shaunessy, Vice President Carolyn J. DeLuca, Vice President Laurilee Kearnes, Vice President and Treasurer	

Page Last Updated – June 24, 2021

HARTE-HANKS DIRECT MARKETING/FULLERTON, INC.
ACA

STATE OF INCORPORATION: California	F.I.N.: 33-0209712	
PRINCIPLE OFFICE ADDRESS: 2337 West Commonwealth Avenue Fullerton, CA 92833	DATE INCORPORATED: 12/17/86	
COUNTY IN WHICH LOCATED: Orange	AGENT FOR SERVICE OF PROCESS: CT Corporation	
OWNED BY: ZHH (Harte Hanks, Inc.)	PERCENT OWNED: 100%	
SHARES	PAR VALUE:	
Authorized: 1,000	\$1.00	
Outstanding: 1,000		
REGISTERED ASSUMED NAMES: None	FOREIGN QUALIFICATIONS: None	
BOARD OF DIRECTORS: Brian Linscott Laurilee Kearnes	OFFICERS: Brian Linscott, President Carolyn J. DeLuca, Vice President Laurilee Kearnes, Vice President and Treasurer	



HARTE-HANKS STRATEGIC MARKETING, INC.
DBM

STATE OF INCORPORATION:
Delaware

F.I.N.:
45-3987467

PRINCIPLE OFFICE ADDRESS:
1 Executive Drive
Suite 303
Chelmsford, MA 01824

DATE INCORPORATED:
12/07/2011

COUNTY IN WHICH LOCATED:
Middlesex

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

SHARES
Authorized:
Outstanding:

PAR VALUE:
1,000 \$0.001
1,000

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:

Massachusetts (01/09/12)

BOARD OF DIRECTORS:
Brian Linscott
Laurilee Keames

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

HARTE-HANKS FLORIDA, INC.
FLA

STATE OF INCORPORATION:
Delaware

F.I.N.:
20-2495117

PRINCIPLE OFFICE ADDRESS:
1101 North Lake Destiny Road
Maitland, FL 32751

DATE INCORPORATED:
03/15/05

COUNTY IN WHICH LOCATED:
Orange

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

SHARES
Authorized: 1,000
Outstanding: 1,000

PAR VALUE:
\$.0.01

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
Florida

(04/11/05)

BOARD OF DIRECTORS:
Brian Linscott
Laurilee Kearnes

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

HARTE HANKS DIRECT MARKETING/BALTIMORE, INC.
HBA, (AWB)

STATE OF INCORPORATION:
Maryland

F.I.N.:
52-1129017

PRINCIPLE OFFICE ADDRESS:
1 Executive Drive, Suite 303
Chelmsford, MA 01824

DATE INCORPORATED:
08/21/78

COUNTY IN WHICH LOCATED:
Baltimore

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

SHARES
Authorized: 1,000
Outstanding: 1,000

PAR VALUE:
\$1.00

REGISTERED ASSUMED NAMES:
Harte Hanks Direct Marketing/ Wilkes Barre

FOREIGN QUALIFICATIONS:
Pennsylvania

(01/06/00)

BOARD OF DIRECTORS:
Brian Linscott
Laurilee Kearnes

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

HARTE-HANKS DO BRAZIL CONSULTORIA E SERVICOS LTDA.
HDB

STATE OF INCORPORATION:

N/A

COMPANY REGISTRATION NUMBER:

JUCESP- 53.653/07-5

PRINCIPLE OFFICE ADDRESS:

Avenida das Nacoes Unidas, 13797, 19th Floor
San Paulo, Brazil 04795-100

DATE INCORPORATED:

09/20/95

LOCATION OF INCORPORATION:

Brazil (São Paulo County)

AGENT FOR SERVICE OF PROCESS:

CT Corporation

OWNED BY:

ZHH (Harte Hanks, Inc.)

PERCENT OWNED:

100%

QUOTA CAPITAL

R\$ 7.660.644,00 (currency Real-R\$)

FOREIGN QUALIFICATIONS:

None

REGISTERED ASSUMED NAMES:

None

OFFICERS AND DIRECTORS:

Carlos Eduardo Prado, General Manager
Maria Auxiliadora Lopes Martins (nominated powers)

HARTE-HANKS DATA SERVICES LLC
HDS

STATE OF INCORPORATION:
Maryland

E.I.N.:
52-2206203

PRINCIPLE OFFICE ADDRESS:
1 Executive Drive, Suite 303
Chelmsford, MA 01824

DATE ORGANIZED:
12/31/99

COUNTY IN WHICH LOCATED:
Anne Arundel

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

MEMBERSHIP UNITS:
100

PAR VALUE
N/A

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
Pennsylvania (04/06/04)
Kentucky (06/16/16)

BOARD OF DIRECTORS:
N/A

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

HHMIX SAS

HFR

STATE OF INCORPORATION:
N/A

F.I.N.:
98-1084858 (USA)

PRINCIPLE OFFICE ADDRESS:
35 rue des Chantiers
Versailles, 78000, France

DATE INCORPORATED:
11/86

LOCATION OF INCORPORATION:
France

AGENT FOR SERVICE OF PROCESS:
N/A

OWNED BY:
HNE (Harte Hanks Europe B.V.)

PERCENT OWNED:
100%

REGISTERED CAPITAL:
10,000 shares of FRF 100

PAR VALUE:
N/A

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
None

DIRECTORS:
Brian Linscott

OFFICERS:
Brian Linscott, President

HARTE-HANKS GMBH
HGR

STATE OF INCORPORATION:
N/A

E.I.N.:
98-0216643 (USA)

PRINCIPLE OFFICE ADDRESS:
De-Saint-Exupéry-Straße 8
60549 Frankfurt am Main
Deutschland / Germany

DATE INCORPORATED:
10/08/90

LOCATION OF INCORPORATION:
Germany

OWNED BY:
HNE (Harte Hanks Europe B.V.)

PERCENT OWNED:
100%

REGISTERED CAPITAL:
DM 500,000, divided into one
share of DM 331,600, three
shares of DM 50,000, two
shares of DM 6,700 and one
share of DM 5,000

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
None

DIRECTOR:
Brian Linscott

OFFICERS:
N/A

HARTE-HANKS DIRECT, INC.
HHD

STATE OF INCORPORATION:
New York

E.I.N.:
13-3520560

PRINCIPLE OFFICE ADDRESS:
3800 Horizon Blvd.
Suite 500
Trevose, PA 19053

DATE INCORPORATED:
05/02/89

COUNTY IN WHICH LOCATED:
Ulster

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
HHP (Harte-Hanks Print, Inc.)

PERCENT OWNED:
100%

SHARES
Authorized:
Outstanding:

PAR VALUE:
200
200
NPV

REGISTERED ASSUMED NAMES:
The Agency Inside Harte-Hanks

FOREIGN QUALIFICATIONS:
Arizona (12/19/05)
Florida
Pennsylvania
Texas (07/02/07)
California (01/15/08)
Colorado (12/22/16)
Connecticut
Georgia
Illinois
Indiana
Maryland
Massachusetts
Michigan
Mississippi
Missouri
New Jersey
New Hampshire
New York
North Carolina
Ohio
Ontario
Tennessee
Texas
Virginia
Washington
Canadian Business Number: 731680724
Canadian Payroll Deductions Program Account:
731680724RP0001
Ontario Corporation Number: 1964654

BOARD OF DIRECTORS:
Brian Linscott
Laurilee Keames

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Keames, Vice President and Treasurer

HARTE HANKS LOGISTICS, LLC
HHL

STATE OF ORGANIZATION:
Florida

E.I.N.:
30-0758173

PRINCIPLE OFFICE ADDRESS:
1400 East Newport Center Drive, Suite 200
Deerfield Beach, FL 33442

DATE ORGANIZED:
12/12/12

COUNTY IN WHICH LOCATED:
Broward

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
FLA (Harte-Hanks Florida, Inc. Formally known as
Harte Hanks Flyer, Inc.)

PERCENT OWNED:
100%

MEMBERSHIP UNITS:
100

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
California (01/10/13)

SOLE AND MANAGING MEMBER:
Harte-Hanks Florida, Inc.

Georgia (01/09/13)

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

Massachusetts (01/10/13)
Minnesota

North Carolina (01/14/13)

Pennsylvania (01/08/13)

HARTE-HANKS PHILIPPINES, INC.
HHM

STATE OF INCORPORATION:

N/A

F.I.N.:

98-1081909 (USA)

PRINCIPLE OFFICE ADDRESS:

Market Market Mall, 4th Floor
Fort Bonifacio Global City
Taguig (Manila), The Philippines

DATE INCORPORATED:

11/03/05

LOCATION OF INCORPORATION:

Philippines

OWNED BY:

ZHH (Harte Hanks, Inc.)

PERCENT OWNED:

100%

SHARES

Authorized: P11,200,000.00

Outstanding: P11,200,000.00

PAR VALUE:

P100.00

REGISTERED ASSUMED NAMES:

None

FOREIGN QUALIFICATIONS:

None

OFFICERS AND DIRECTORS:

Jonathan S. Bondoc, President, Director
Marie Cherylle Z. Hular, Director
Martin Ignacio D. Mijares, Director, Secretary
Benjamin Chacko, Director
Amelia Batuhan, Treasurer
Sydney J. Hoffman, Assistant Treasurer
Laurilee Keames, Vice President

HARTE-HANKS PRINT, INC.
HHP

STATE OF INCORPORATION:
New Jersey

F.I.N.:
23-2676694

PRINCIPLE OFFICE ADDRESS:
One Matrix Drive
Monroe Township, NJ 08831

DATE INCORPORATED:
01/23/92

COUNTY IN WHICH LOCATED:
Gloucester

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

SHARES
Authorized: 20,000,000
Outstanding: 1,000

PAR VALUE:
NPV

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
None

BOARD OF DIRECTORS:
Brian Linscott
Laurilee Kearnes

OFFICERS:
Brian Linscott, President
Laurilee Kearnes, Vice President and Treasurer

HARTE-HANKS DIRECT MARKETING/JACKSONVILLE, LLC
HJX

STATE OF INCORPORATION:

Delaware

F.I.N.:

59-3759459

PRINCIPLE OFFICE ADDRESS:

1 Executive Drive, Suite 303
Chelmsford, MA 01824

DATE ORGANIZED:

11/30/01

COUNTY IN WHICH LOCATED:

Duval

AGENT FOR SERVICE OF PROCESS:

CT Corporation

OWNED BY:

FLA (Harte-Hanks Florida, Inc.)

PERCENT OWNED:

100%

MEMBERSHIP UNITS:

100

PAR VALUE:

N/A

REGISTERED ASSUMED NAMES:

None

FOREIGN QUALIFICATIONS:

Florida
Georgia
Illinois
Kentucky
Maryland
New Mexico
North Carolina
Ohio
Pennsylvania
Texas

(01/01/02)

BOARD OF DIRECTORS:

N/A

OFFICERS:

Richard A. Kegley, President
Brian Linscott, Vice President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

HARTE-HANKS DIRECT MARKETING/KANSAS CITY, LLC
HKC

STATE OF ORGANIZATION:
Delaware

F.I.N.:
48-1252793

PRINCIPLE OFFICE ADDRESS:
6700 Orville Avenue, Suite 100
Kansas City, KS 66102-3126

DATE ORGANIZED:
11/30/01

COUNTY IN WHICH LOCATED:
Johnson

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
SSN (Sales Support Services, Inc.)

PERCENT OWNED:
100%

MEMBERSHIP UNITS:
100

PAR VALUE:
N/A

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
Kansas
Montana
Maine

(03/21/02)
(11/12/09)
(11/19/10)

BOARD OF DIRECTORS:
N/A

OFFICERS:
Brian Linscott, President
Jeanne M. Shaunessy, Vice President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

HARTE HANKS EUROPE B.V.
HNE

STATE OF INCORPORATION:
N/A

F.I.N.:
98-1084277 (USA)

PRINCIPLE OFFICE ADDRESS:
Pan-Invest
Prinses Margrietplantsoen 88
2595 BR The Hague
The Netherlands

DATE INCORPORATED:
08/19/88

LOCATION OF INCORPORATION:
Holland (Netherlands)

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

CAPITAL:
Authorized: NLG 200,000
Outstanding: NLG 40,000

PAR VALUE:
N/A

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
None

DIRECTORS:
Wouter Beezemer/Pan-Invest
Brian Linscott
Laurilee Kearnes

OFFICERS:
N/A

HARTE-HANKS MARKET INTELLIGENCE ESPANA LLC
HSP

STATE OF INCORPORATION:
Colorado

F.I.N.:
N/A

PRINCIPLE OFFICE ADDRESS:
Cl Corazon de Maria, No. 6, 3rd Floor, Suites 4 & 5
Madrid 28002
Spain

DATE INCORPORATED:
08/09/91

COUNTY IN WHICH LOCATED:
N/A

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

MEMBERSHIP UNITS:
100

PAR VALUE:
N/A

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
Spain

BOARD OF DIRECTORS:
N/A

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

HARTE HANKS UK LIMITED
HTM (AND FORMER HIA, MZL, SDML)

STATE OF INCORPORATION:
N/A

COMPANY REGISTRATION NUMBER:
02435931
98-1011966 (USA)

PRINCIPLE OFFICE ADDRESS:
Spaces, Charter Building
Charter Place
Uxbridge UB8 1JG
United Kingdom

DATE INCORPORATED:
10/25/89

COUNTY IN WHICH LOCATED:
N/A

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)
TRQ (Harte Hanks Tranquility Limited)
*ZHH acquired 1 share in TRQ in exchange for 25 shares of HTM, effective 12/30/2018.

PERCENT OWNED:
75%*
25%

SHARES
Authorized: 100
Outstanding: 100

PAR VALUE:
£1

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
None

OFFICERS AND DIRECTORS:
Sydney J. Hoffman, Director
Peter J. Kitley, Director
Brian Linscott, President

HARTE-HANKS DIRECT MARKETING/DALLAS, INC.
HTX

STATE OF INCORPORATION:
Delaware

F.I.N.:
75-2626529

PRINCIPLE OFFICE ADDRESS:
2750 114th Street, Suite 100
Grand Prairie, TX 75050

DATE INCORPORATED:
06/22/07

COUNTY IN WHICH LOCATED:
Tarrant County, Texas

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

SHARES
Authorized: 1,000
Outstanding: 1,000

PAR VALUE:
NPV

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
Texas (07/02/07)

BOARD OF DIRECTORS:
Brian Linscott
Laurilee Kearnes

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

NSO, INC.
 NMO, (FMO), (SMO), (PMO), (TMO), (MOC)

STATE OF INCORPORATION:
 Ohio

F.I.N.:
 31-1190424

PRINCIPLE OFFICE ADDRESS:
 2800 Wells Branch Parkway
 Austin, TX 78728

DATE INCORPORATED:
 11/21/86

COUNTY IN WHICH LOCATED:
 Hamilton

AGENT FOR SERVICE OF PROCESS:
 CT Corporation

OWNED BY:
 ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
 100%

SHARES
 Authorized:
 Outstanding:

PAR VALUE:
 1,000 \$1.00
 1,000

REGISTERED ASSUMED NAMES:
 Harte Hanks Direct Marketing
 (Ohio, California, New Jersey, Texas, Pennsylvania, Delaware, Illinois, New York,
 Maryland,
 Massachusetts, Florida, Kansas, Kentucky,
 Washington)

FOREIGN QUALIFICATIONS:			
California	(12/18/86)	Massachusetts	(12/19/95)
Texas	(12/18/86)	Florida	(11/07/96)
Pennsylvania	(02/24/87)		
Illinois	(02/17/93)	Colorado	(01/14/16)
Maryland	(12/07/95)		

BOARD OF DIRECTORS:
 Brian Linscott

OFFICERS:
 Brian Linscott, President, Secretary and Assistant Treasurer
 Carolyn J. DeLuca, Vice President
 Laurilee Kearnes, Vice President and Treasurer

SOUTHERN COMPRINT CO.
PMB, (NCP), (SDP)

STATE OF INCORPORATION:
California

F.I.N.:
77-0231595

PRINCIPLE OFFICE ADDRESS:
2830 Orbiter Street
Brea, CA 92821

DATE INCORPORATED:
10/10/89

COUNTY IN WHICH LOCATED:
Orange

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

SHARES:
Authorized: 1,500
Outstanding: 1,070

PAR VALUE:
NPV

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
None

BOARD OF DIRECTORS:
Brian Linscott
Laurilee Kearnes

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

HARTE-HANKS SRL
ROM

STATE OF INCORPORATION:
N/A

F.I.N.:
98-1082756 (USA)

PRINCIPLE OFFICE ADDRESS:
IDEO – Sos Pacurari, nr 138,
Iasi, 700521, Romania

DATE INCORPORATED:
07/17/06

LOCATION OF INCORPORATION:
Romania

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
HTM (Harte Hanks UK Limited)

PERCENT OWNED:
100%

SHARES:
Authorized: 60 at E6
Outstanding: 60 at E6

PAR VALUE:
N/A

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
None

DIRECTORS:
Peter J. Kitley
Brian Linscott

AGENT:
Florea Anca

HARTE-HANKS SHOPPERS, INC.
SCA, (NCA), (SDA), (WEB)

STATE OF INCORPORATION:
California

F.I.N.:
95-2269791

PRINCIPLE OFFICE ADDRESS:
2830 Orbiter Street
Brea, CA 92821

DATE INCORPORATED:
04/25/63

COUNTY IN WHICH LOCATED:
Orange

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

SHARES:
Authorized: 250,000
Outstanding: 15,174

PAR VALUE:
NPV

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
None

BOARD OF DIRECTORS:
Brian Linscott
Laurilee Kearnes

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

HARTE-HANKS RESPONSE MANAGEMENT/AUSTIN, INC.
SMI, (MZU), (STS), (TAC), (HHMUS)

STATE OF INCORPORATION: Delaware	F.I.N.: 74-2898255	
PRINCIPLE OFFICE ADDRESS: 2800 Wells Branch Pkwy. Austin, TX 78728	DATE INCORPORATED: 06/22/07	
COUNTY IN WHICH LOCATED: New Castle	AGENT FOR SERVICE OF PROCESS: CT Corporation	
OWNED BY: ZHH (Harte Hanks, Inc.)	PERCENT OWNED: 100%	
SHARES:	HHS	
Authorized: 1,000	PAR VALUE: NPV	
Outstanding: 1,000		
REGISTERED ASSUMED NAMES: None	FOREIGN QUALIFICATIONS:	
	Arkansas	(07/02/07)
	Illinois	
	Kansas	
	Texas	
	Florida	(07/03/07)
	New Jersey	(09/02/16)
	New York	
BOARD OF DIRECTORS: Brian Linscott Laurilee Kearnes	OFFICERS: Brian Linscott, Vice President Carolyn J. DeLuca, Vice President Laurilee Kearnes, Vice President and Treasurer	

SALES SUPPORT SERVICES, INC.
SSN

STATE OF INCORPORATION: New Jersey	F.I.N.: 22-1664923	
PRINCIPLE OFFICE ADDRESS: 14950 F.A.A. Boulevard, STE. 100 Fort Worth, TX 76155	DATE INCORPORATED: 05/17/60	
COUNTY IN WHICH LOCATED: Middlesex	AGENT FOR SERVICE OF PROCESS: CT Corporation	
OWNED BY: ZHH (Harte Hanks, Inc.)	PERCENT OWNED: 100%	
SHARES:	PAR VALUE: NPV	
Authorized: 10,000		
Outstanding: 5,617		
REGISTERED ASSUMED NAMES: Harte-Hanks Sales Support	FOREIGN QUALIFICATIONS:	
	Texas	(10/13/86)
	California	(12/22/88)
BOARD OF DIRECTORS: Brian Linscott Laurilee Kearnes	OFFICERS: Brian Linscott, President Carolyn J. DeLuca, Vice President Laurilee Kearnes, Vice President and Treasurer	



HARTE HANKS TRANQUILITY LIMITED
TRQ

STATE OF INCORPORATION:
N/A

COMPANY REGISTRATION NUMBER:
10537757

PRINCIPLE OFFICE ADDRESS:
Wyvern House, Wyvern Way, Rockingham Road
Uxbridge UB8 2XN

DATE INCORPORATED:
12/22/16

LOCATION OF INCORPORATION:
England & Wales

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

SHARES:
Authorized: 11*
Outstanding: 11*

PAR VALUE:
£1

*Effective 12/30/18, TRQ issued 1 additional share of stock to ZHH (increasing the outstanding shares from 10 to 11) in exchange for 25 shares of HTM.

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
None

OFFICERS AND DIRECTORS:
Peter J. Kitley, Director
Brian Linscott, Director, Secretary

HARTE-HANKS BELGIUM N.V.
TSS

STATE OF INCORPORATION:
N/A

E.I.N.:
98-1065119 (USA)

PRINCIPLE OFFICE ADDRESS:
Ekkelgaarden 6B
3500 Hasselt, Belgium

DATE INCORPORATED:
08/17/94

LOCATION OF INCORPORATION:
Belgium

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.) (624 shares)
HHD (Harte-Hanks Direct, Inc.) (1 share)

PERCENT OWNED:
100%

REGISTERED CAPITAL:
BEF 6,250,000 represented by registered shares having no par value and numbered 1 through 625

PAR VALUE:
NPV

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
None

DIRECTORS:
Brian Linscott
Laurilee Kearnes

HARTE-HANKS STS, INC.
ZHC, (HRM), (MSG) , (MAC)

STATE OF INCORPORATION:
Delaware

F.I.N.:
20-5779914

PRINCIPLE OFFICE ADDRESS:
2800 Wells Branch Parkway
Austin, TX 78728

DATE INCORPORATED:
10/19/06

COUNTY IN WHICH LOCATED:
New Castle

AGENT FOR SERVICE OF PROCESS:
CT Corporation

OWNED BY:
ZHH (Harte Hanks, Inc.)

PERCENT OWNED:
100%

SHARES:
Authorized: 1,000
Outstanding: 1,000

PAR VALUE:
\$1.00

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
California (01/15/08)
Pennsylvania (01/15/14)
Florida (01/29/14)
Massachusetts (01/15/14)

BOARD OF DIRECTORS:
Brian Linscott
Laurilee Kearnes

OFFICERS:
Brian Linscott, President
Carolyn J. DeLuca, Vice President
Laurilee Kearnes, Vice President and Treasurer

HARTE HANKS, INC.
ZHH

STATE OF INCORPORATION:
Delaware

F.I.N.:
74-1677284

PRINCIPLE OFFICE ADDRESS
1 Executive Drive, Suite 303
Chelmsford, MA 01824
[Delaware Principle Address:]
The Corporation Trust Company
Corporation Trust Center
1209 Orange Street
Wilmington, Delaware 19801

DATE INCORPORATED:
10/01/70

COUNTY IN WHICH LOCATED:
Bexar County, Texas

AGENT FOR SERVICE OF PROCESS:
CT Corporation

SHARES:
Authorized: Common Stock: 250,000,000
Preferred Stock: 1,000,000

PAR VALUE:
\$1.00

REGISTERED ASSUMED NAMES:
None

FOREIGN QUALIFICATIONS:
Texas (02/18/71)

BOARD OF DIRECTORS:
John H. Griffin, Jr., Chairman
Brian Linscott
David L. Copeland
Brad Radoff
Genni Combes.

PRESIDENT
Brian Linscott

CHIEF FINANCIAL OFFICER:
Laurilee Kearnes

CHIEF EXECUTIVE OFFICER:
Brian Linscott

VICE PRESIDENTS:
LAURILEE KEARNES

ANNEX A

CONTACT INFORMATION FOR SUBSIDIARY GOVERNANCE SUPPORT

A number of corporate support groups and other internal personnel play an important role in subsidiary governance matters. These groups provide support through centralized services. The principal corporate support groups and other internal personnel include:

- *law department* – responsible for a variety of subsidiary governance matters, primarily with regard to U.S., or domestic, subsidiaries, including maintaining minute books and corporate organizational records for domestic subsidiaries; assisting with formation and other organizational matters for new domestic subsidiaries; making periodic secretary of state filings for annual reports, qualifications to conduct business in jurisdictions other than the state of formation, and “doing business as,” or DBA, renewals for domestic subsidiaries; administering the annual elections and appointments of domestic subsidiary directors and officers; advising on responsibilities of directors and officers; assisting local domestic business units in preparing required subsidiary board resolutions; and assisting with the dissolution of inactive domestic subsidiaries;
 - *tax department* – actively involved in selecting the type of legal entity and jurisdiction of formation for new subsidiaries and in the dissolution and reorganization of existing subsidiaries; responsible for domestic subsidiary tax filings, subsidiary capitalization and subsidiary tax planning; and manages, together with the finance and accounting department, the flow of funds among subsidiaries through inter-company loans, dividends and capital contributions;
 - *international business units* – responsible for overseeing and managing subsidiary governance matters for non-U.S. formed subsidiaries, including maintaining minute books and corporate organizational records for non-U.S. subsidiaries; assisting with the formation and other organizational matters for new non-U.S. subsidiaries; making periodic filings for statutory accounts, annual reports, qualifications to conduct business in local jurisdictions other than the jurisdiction of formation, and other locally required filings and renewals for non-U.S. subsidiaries; administering the annual elections and appointments of non-U.S. subsidiary directors and officers; preparing required board resolutions for non-U.S. subsidiaries; and assisting with the dissolution of inactive non-U.S. subsidiaries; and
 - *finance and accounting department* – responsible for financial accounting and reporting for subsidiaries’ activities; actively involved, together with the tax department, in managing the flow of funds among subsidiaries through inter-company loans, dividends and capital contributions; and assists local business units in establishing and maintaining subsidiary bank accounts.
-

The following is a list of helpful contact information to assist employees with questions about subsidiary governance matters.

Law Department

Robert T. Wyman, General Counsel
Carolyn DeLuca, Head of Legal Services

1 Executive Drive, Chelmsford, MA 01824
Robert.Wyman@hartehanks.com
2 Executive Drive, Chelmsford, MA 01824
Carolyn.Deluca@hartehanks.com

Tax Department

Laurilee Kearnes, CFO

1 Executive Drive, Chelmsford, MA 01824
Lauri.Kearnes@hartehanks.com

International Subsidiaries

Syd Hoffman, Group SVP, Finance
(European subsidiaries)

Austin, Texas
Sydney.Hoffman@hartehanks.com

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 033-54303, 333-03045, 333-30995, 333-63105, 333-41370, 333-159151, 333-189162, 333-189781, 333-227325, 333-227326 and 333-240325) of Harte Hanks, Inc. and Subsidiaries of our report dated March 30, 2023, relating to the consolidated financial statements of Harte Hanks, Inc. and Subsidiaries as of and for the years ended December 31, 2022 and 2021, which appears in this Annual Report on Form 10-K for the year ended December 31, 2022.

/s/ Baker Tilly US, LLP

Tewksbury, Massachusetts

March 31, 2023

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

I, Brian Linscott, Chief Executive 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 31, 2023

Date

/s/ Brian Linscott

Brian Linscott
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 31, 2023

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, Brian Linscott, 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, 2022 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 31, 2023

Date

/s/ Brian Linscott

Brian Linscott
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, 2022 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 31, 2023

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.