

U.S.
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2019**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: **001-07120**



HARTE HANKS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

74-1677284

(I.R.S. Employer
Identification Number)

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

(512) 434-1100

(Registrant's telephone number including area code)

None

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

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

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

Indicate by check mark 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 (Section 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 an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The number of shares outstanding of each of the issuer's classes of common stock as of October 15, 2019 was 6,300,381 shares of common stock, all of one class.

HARTE HANKS, INC. AND SUBSIDIARIES
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Item 1. Financial Statements**Harte Hanks, Inc. and Subsidiaries Condensed Consolidated Balance Sheets**
(Unaudited)

In thousands, except per share and share amounts	September 30, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 31,738	\$ 20,882
Accounts receivable (less allowance for doubtful accounts of \$971 at September 30, 2019 and \$430 at December 31, 2018)	40,577	54,240
Contract assets	986	2,362
Inventory	407	448
Prepaid expenses	2,896	4,088
Prepaid taxes and income tax receivable	447	20,436
Other current assets	1,738	2,536
Total current assets	78,789	104,992
Property, plant and equipment (less accumulated depreciation of \$130,799 at September 30, 2019 and \$133,559 at December 31, 2018)	8,780	13,592
Right-of-use assets	20,684	—
Other assets	3,897	6,591
Total assets	\$ 112,150	\$ 125,175
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$ 18,131	\$ 31,052
Accrued payroll and related expenses	5,508	6,783
Deferred revenue and customer advances	4,286	6,034
Customer postage and program deposits	6,003	6,729
Short-term lease liabilities	8,048	—
Other current liabilities	2,984	3,564
Total current liabilities	44,960	54,162
Long-term debt	18,700	14,200
Pensions	61,518	62,214
Deferred tax liabilities, net	223	—
Long-term lease liabilities	14,578	—
Other long-term liabilities	2,877	4,060
Total liabilities	142,856	134,636
Preferred stock, \$1 par value, 1,000,000 shares authorized; 9,926 shares of Series A Convertible Preferred Stock, issued and outstanding	9,723	9,723
Stockholders' deficit		
Common stock, \$1 par value, 25,000,000 shares authorized; 12,121,484 and 12,115,055 shares issued, 6,300,381 and 6,260,075 shares outstanding at September 30, 2019 and December 31, 2018, respectively	12,121	12,115
Additional paid-in capital	447,244	453,868
Retained earnings	800,763	812,704
Less treasury stock, 5,821,103 shares at cost at September 30, 2019 and 5,854,980 shares at cost at December 31, 2018	(1,244,056)	(1,251,388)
Accumulated other comprehensive loss	(56,501)	(46,483)
Total stockholders' deficit	(40,429)	(19,184)
Total liabilities, preferred stock and stockholders' deficit	\$ 112,150	\$ 125,175

See Accompanying Notes to Condensed Consolidated Financial Statements

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

In thousands, except per share amounts	Three Months Ended September 30,	
	2019	2018
Operating revenues	\$ 51,414	\$ 63,588
Operating expenses		
Labor	28,589	35,619
Production and distribution	17,314	23,016
Advertising, selling, general and administrative	5,623	9,658
Restructuring Expense	3,080	—
Impairment of Assets	—	3,822
Depreciation, software and intangible asset amortization	1,283	1,826
Total operating expenses	55,889	73,941
Operating loss	(4,475)	(10,353)
Other expenses, net		
Interest expense, net	330	177
Other, net	1,081	891
Total other expenses, net	1,411	1,068
Loss before income taxes	(5,886)	(11,421)
Income tax expense (benefit)	102	(1,437)
Net loss	(5,988)	(9,984)
Less: Preferred stock dividends	125	125
Loss attributable to common stockholders	\$ (6,113)	\$ (10,109)
Loss per common share		
Basic	\$ (0.97)	\$ (1.62)
Diluted	\$ (0.97)	\$ (1.62)
Weighted average shares used to compute loss per share attributable to common shares		
Basic	6,291	6,250
Diluted	6,291	6,250
Comprehensive loss, net of tax:		
Net loss	\$ (5,988)	\$ (9,984)
Adjustment to pension liability, net:	549	517
Foreign currency translation adjustment	(660)	(248)
Total other comprehensive (loss) income, net of tax	\$ (111)	\$ 269
Comprehensive loss	\$ (6,099)	\$ (9,715)
Less: Preferred stock dividends	125	125
Comprehensive loss attributable to common stockholders	\$ (6,224)	\$ (9,840)

See Accompanying Notes to Condensed Consolidated Financial Statements

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

In thousands, except per share amounts	Nine Months Ended September 30,	
	2019	2018
Operating revenues	\$ 165,250	\$ 214,417
Operating expenses		
Labor	94,034	125,999
Production and distribution	58,130	73,523
Advertising, selling, general and administrative	20,225	26,891
Restructuring Expense	10,867	—
Impairment of Assets	—	3,822
Depreciation, software and intangible asset amortization	4,022	5,879
Total operating expenses	187,278	236,114
Operating loss	(22,028)	(21,697)
Other expenses and (income)		
Interest expense, net	938	1,289
Gain on sale from 3Q Digital	(5,000)	(30,954)
Other, net	4,512	2,859
Total other expenses and (income)	450	(26,806)
(Loss) income before income taxes	(22,478)	5,109
Income tax expense (benefit)	840	(10,800)
Net (loss) income	(23,318)	15,909
Less: Earnings attributable to participating securities	—	1,957
Less: Preferred stock dividends	371	332
(Loss) income attributable to common stockholders	\$ (23,689)	\$ 13,620
(Loss) earnings per common share		
Basic	\$ (3.77)	\$ 2.19
Diluted	\$ (3.77)	\$ 2.18
Weighted-average shares used to compute (loss) earnings per share attributable to common shares		
Basic	6,277	6,230
Diluted	6,277	6,251
Comprehensive (loss) income		
Net (loss) income	\$ (23,318)	\$ 15,909
Adjustment to pension liability	1,648	1,552
Foreign currency translation adjustment	(311)	(1,207)
Adoption of ASU 2018-02	(11,355)	—
Total other comprehensive (loss) income, net of tax	\$ (10,018)	\$ 345
Comprehensive (loss) income	\$ (33,336)	\$ 16,254
Less: Earnings attributable to participating securities	—	1,957
Less: Preferred stock dividends	371	332
Comprehensive (loss) income attributable to common stockholders	\$ (33,707)	\$ 13,965

See Accompanying Notes to Condensed Consolidated Financial Statements

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

In thousands	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
Balance at December 31, 2017	\$ —	\$ 12,075	\$ 457,186	\$ 794,583	\$ (1,254,176)	\$ (44,303)	\$ (34,635)
Cumulative effect of accounting change	—	—	—	571	—	—	571
Preferred stock issued	9,723	—	—	—	—	—	—
Stock Option activities	—	38	(38)	—	(1)	—	(1)
Rounding from reverse stock split	—	(38)	38	—	—	—	—
Stock-based compensation	—	—	433	—	—	—	433
Treasury stock issued	—	—	(50)	—	53	—	3
Net income	—	—	—	32,627	—	—	32,627
Other comprehensive income	—	—	—	—	—	364	364
Balance at March 31, 2018	\$ 9,723	\$ 12,075	\$ 457,569	\$ 827,781	\$ (1,254,124)	\$ (43,939)	\$ (638)
Stock Option activities	—	33	(33)	—	(69)	—	(69)
Stock-based compensation	—	—	425	—	—	—	425
Treasury stock issued	—	—	(755)	—	789	—	34
Net loss	—	—	—	(6,734)	—	—	(6,734)
Other comprehensive loss	—	—	—	—	—	(288)	(288)
Balance at June 30, 2018	\$ 9,723	\$ 12,108	\$ 457,206	\$ 821,047	\$ (1,253,404)	\$ (44,227)	\$ (7,270)
Stock Option activities	—	7	(78)	—	36	—	(35)
Stock-based compensation	—	—	(1,461)	—	—	—	(1,461)
Treasury stock issued	—	—	(659)	—	687	—	28
Net loss	—	—	—	(9,984)	—	—	(9,984)
Other comprehensive loss	—	—	—	—	—	269	269
Balance at September 30, 2018	\$ 9,723	\$ 12,115	\$ 455,008	\$ 811,063	\$ (1,252,681)	\$ (43,958)	\$ (18,453)
In thousands	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
Balance at December 31, 2018	\$ 9,723	\$ 12,115	\$ 453,868	\$ 812,704	\$ (1,251,388)	\$ (46,483)	\$ (19,184)
Cumulative effect of accounting change	—	—	—	11,377	—	(11,355)	22
Stock-based compensation	—	—	151	—	—	—	151
Treasury stock issued	—	—	(1,968)	—	1,984	—	16
Net loss	—	—	—	(13,527)	—	—	(13,527)
Other comprehensive income	—	—	—	—	—	522	522
Balance at March 31, 2019	\$ 9,723	\$ 12,115	\$ 452,051	\$ 810,554	\$ (1,249,404)	\$ (57,316)	\$ (32,000)
Stock Option activities	—	6	(8)	—	—	—	(2)
Stock-based compensation	—	—	239	—	—	—	239
Treasury stock issued	—	—	(345)	—	343	—	(2)
Net loss	—	—	—	(3,803)	—	—	(3,803)
Other comprehensive income	—	—	—	—	—	926	926
Balance at June 30, 2019	\$ 9,723	\$ 12,121	\$ 451,937	\$ 806,751	\$ (1,249,061)	\$ (56,390)	\$ (34,642)
Stock-based compensation	—	—	312	—	—	—	312
Treasury stock issued	—	—	(5,005)	—	5,005	—	—
Net loss	—	—	—	(5,988)	—	—	(5,988)
Other comprehensive income	—	—	—	—	—	(111)	(111)
Balance at September 30, 2019	\$ 9,723	\$ 12,121	\$ 447,244	\$ 800,763	\$ (1,244,056)	\$ (56,501)	\$ (40,429)

See Accompanying Notes to Condensed Consolidated Financial Statements

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

In thousands	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Net (loss) income	\$ (23,318)	\$ 15,909
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities		
Depreciation, software amortization	4,022	5,767
Intangible asset amortization	—	113
Restructuring	5,812	—
Impairment of Assets	—	3,822
Stock-based compensation	739	(706)
Net pension cost	1,501	1,284
Interest accretion on contingent consideration	—	742
Deferred income taxes	426	(978)
Gain on sale	—	(32,760)
Other, net	—	(238)
Changes in assets and liabilities:		
Decrease in accounts receivable, net and contract assets	15,039	10,021
Decrease in inventory	41	60
Decrease (increase) in prepaid expenses, income tax receivable and other assets	20,131	(10,632)
(Decrease) increase in accounts payable	(12,591)	9,693
Decrease in other accrued expenses and liabilities	(2,427)	(9,110)
Net cash provided by (used in) operating activities	9,375	(7,013)
Cash flows from investing activities		
Dispositions, net of cash transferred	—	3,929
Purchases of property, plant and equipment	(1,655)	(2,834)
Proceeds from sale of property, plant and equipment	15	225
Net cash (used in) provided by investing activities	(1,640)	1,320
Cash flows from financing activities		
Borrowings	4,500	9,000
Repayment of borrowings	—	(9,000)
Debt financing costs	(477)	(425)
Issuance of preferred stock, net of transaction fees	—	9,723
Issuance of common stock	(2)	(105)
Issuance of treasury stock	14	65
Payment of finance leases	(603)	(377)
Net cash provided by financing activities	3,432	8,881
Effect of exchange rate changes on cash and cash equivalents	(311)	(1,207)
Net increase in cash and cash equivalents	10,856	1,981
Cash and cash equivalents at beginning of period	20,882	8,397
Cash and cash equivalents at end of period	\$ 31,738	\$ 10,378
Supplemental disclosures		
Cash paid for interest	\$ 643	\$ 113
Cash received for income taxes	\$ 19,329	\$ 41
Non-cash investing and financing activities		
Purchases of property, plant and equipment included in accounts payable	\$ 489	\$ 36

See Accompanying Notes to Condensed 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 purveyor of data-driven, omni-channel marketing and customer relationship solutions and logistics. The Company has robust capabilities that offer clients the strategic guidance they need across the customer data landscape as well as the executional know-how in database build and management, data analytics, digital media, direct mail, customer contact, client fulfillment and marketing and product logistics. Harte Hanks solves marketing, commerce and logistical challenges for some of the world's leading brands in North America, Asia-Pacific and Europe.

The Company operates as one reportable segment. Our Principal Executive Officer reviews our operating results on an aggregate basis for purposes of allocating resources and evaluating financial performance.

Securities Purchase Agreement

On January 23, 2018, we entered into a Securities Purchase Agreement with Wipro, LLC ("Wipro"), pursuant to which on January 30, 2018, we issued 9,926 shares of Series A Convertible Preferred Stock, par value \$1.00 per share ("Series A Preferred Stock"), for aggregate consideration of \$9.9 million. Dividends on the Series A Preferred Stock accrue at a rate of 5.0% per year or the rate that cash dividends were paid in respect to shares of Common Stock if such rate is greater than 5.0%. The Preferred Stock issued under the Securities Purchase Agreement are convertible into 1,001,614 shares of our Common Stock. Dividends are payable solely upon a Liquidation (as defined in the Certificate of Designation), and only if prior to such Liquidation such shares of Series A Preferred Stock have not been converted to Common Stock.

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

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

Related Party Transactions

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

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

Accounting Principles

Our unaudited interim condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the Harte Hanks Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "2018 10-K") filed with the U.S. Securities and Exchange Commission on March 18, 2019.

Consolidation

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

Interim Financial Information

The condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Rule 8-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

Reverse Stock Split

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

Use of Estimates

The preparation of Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results and outcomes could differ from those estimates and assumptions. Such estimates include, but are not limited to, estimates related to lease accounting; pension accounting; fair value for purposes of assessing long-lived assets for impairment; income taxes; stock-based compensation; and contingencies. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances could result in revised estimates and assumptions.

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

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

Revenue Recognition

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

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

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

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

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

Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures*, ("ASC 820") defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into three levels:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Because of their maturities and/or variable interest rates, certain financial instruments have fair values approximating their carrying values. These instruments include cash and cash equivalents, accounts receivable, trade payables and long-term debt.

Leases

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

See Note B, *Recent Accounting Pronouncements - Recently adopted accounting pronouncements*.

Note B - Recent Accounting Pronouncements

Recently issued accounting pronouncements not yet adopted

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

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

Recently adopted accounting pronouncements

Income taxes

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

with early adoption permitted. We adopted ASU 2018-02 in the first quarter of 2019. See Note I, *Income Taxes*, for a discussion of the impacts of this ASU.

Stock-based Compensation

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation (Topic 718): Improvements to nonemployee share-based payment accounting*, which supersedes ASC 505-50, *Accounting for Distributions to Shareholders with Components of Stock and Cash*, and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both non-employees and employees. As a result, most of the guidance in ASC 718 associated with employee share-based payments, including most of its requirements related to classification and measurement, applies to non-employee share-based payment arrangements. The ASU is effective for annual periods beginning after December 15, 2018, and the interim periods within those fiscal years with early adoption permitted after the entity has adopted ASC 606. This standard was adopted as of January 1, 2019 and did not have a material impact on our condensed consolidated financial statements and related disclosures.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* and subsequent amendment ASU 2018-11, which requires all operating leases to be recorded on the balance sheet unless the practical expedient is elected for short-term operating leases. The lessee will record a liability for its lease obligations (initially measured at the present value of the future lease payments not yet paid over the lease term, and an asset for its right to use the underlying asset equal to the lease liability, adjusted for lease payments made at or before lease commencement). This ASU is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. This change is required to be applied using a modified retrospective approach for leases that exist or are entered after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited. In July 2018, the FASB approved an optional transition method to initially account for the impact of the adoption with a cumulative-effect adjustment to the January 1, 2019, rather than the January 1, 2017, financial statements. This will eliminate the need to restate amounts presented prior to January 1, 2019.

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

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

Note C - Revenue from Contracts with Customers

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

Under ASC 606, revenue is recognized when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Our contracts with customers state the terms of sale, including the description, quantity, and price of the product or service purchased. Payment terms can vary by contract, but the period between invoicing and when payment is due is not significant. At September 30, 2019 and December 31, 2018, our contracts do not include any significant financing components.

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

Disaggregation of Revenue

We disaggregate revenue by vertical market and key revenue stream. The following table summarizes revenue from contracts with customers for the three and nine months ended September 30, 2019 and 2018 by our key vertical markets:

In thousands	Three Months Ended		Nine Months Ended	
	Sep 30, 2019	Sep 30, 2018	Sep 30, 2019	Sep 30, 2018
B2B	\$ 11,290	\$ 14,069	\$ 35,149	\$ 47,673
Consumer Brands	11,171	12,642	35,222	47,893
Financial Services	11,635	13,185	36,850	42,185
Healthcare	5,257	4,382	14,946	12,800
Retail	8,803	14,933	31,752	46,884
Transportation	3,258	4,377	11,331	16,982
Total Revenues	\$ 51,414	\$ 63,588	\$ 165,250	\$ 214,417

The nature of the services offered by each key revenue stream are different. The following tables summarize revenue from contracts with customers for the three and nine months ended September 30, 2019 by our four major revenue streams and the pattern of revenue recognition:

For the Three Months Ended September 30, 2019			
In thousands	Revenue for performance obligations recognized over time	Revenue for performance obligations recognized at a point in time	Total
	Agency & Digital Services	\$ 6,286	\$ 276
Contact Centers	14,618	—	14,618
Database Marketing Solutions	5,272	1,170	6,442
Direct Mail, Logistics, and Fulfillment	20,775	3,017	23,792
Total Revenues	\$ 46,951	\$ 4,463	\$ 51,414

For the Nine Months Ended September 30, 2019			
In thousands	Revenue for performance obligations recognized over time	Revenue for performance obligations recognized at a point in time	Total
	Agency & Digital Services	\$ 18,793	\$ 407
Contact Centers	46,688	—	46,688
Database Marketing Solutions	16,745	2,537	19,282
Direct Mail, Logistics, and Fulfillment	67,853	12,227	80,080
Total Revenues	\$ 150,079	\$ 15,171	\$ 165,250

Our contracts with customers may consist of multiple performance obligations. If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price ("SSP") basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation. For most performance obligations, we determine SSP based on the price at which the performance obligation is sold separately. Although uncommon, if the SSP is not observable through past transactions, we estimate the SSP taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations. Further discussion of other performance obligations in each of our major revenue streams follows:

Agency & Digital Services

Our agency services are full-service, customer engagement agencies specializing in direct and digital communications for both consumer and business-to-business markets. Our digital solutions integrate online services within the marketing mix and

include: search engine management, display, digital analytics, website development and design, digital strategy, social media, email, e-commerce, and interactive relationship management. Our contracts may include a promise to purchase media or acquire search engine marketing solutions on behalf of our clients; in such cases, we have determined we are an agent, rather than principal and therefore recognize the net consideration as revenue.

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

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

Contact Centers

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

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

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

Database Marketing Solutions

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

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

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

Direct Mail, Logistics, and Fulfillment

Our services include: digital printing, print on demand, advanced mail optimization, logistics and transportation optimization, tracking, commingling, shrink wrapping, and specialized mailings. We also maintain fulfillment centers where we provide custom kitting services, print on demand, product recalls, and freight optimization allowing our customers to distribute literature and other marketing materials.

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

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

Upfront Non-Refundable Fees

We may receive non-refundable upfront fees from customers for implementation of our SaaS database solutions products or for providing training in connection with our contact center solutions. These activities are not deemed to transfer a separate promised service and therefore, represent advanced payments. Where customers have an option to renew a contract, the customer is not required to pay similar upfront fees upon renewal. As a result, we have determined that these renewal options provide for the purchase of future services at a reduced rate and therefore, provide a material right. These upfront non-refundable fees are recognized over the period of benefit which is generally consistent with estimated customer life (four to five years for database solutions contracts and six months to one year for contact center contracts). The balance of upfront non-refundable fees collected from customers were immaterial as of September 30, 2019 and 2018.

Transaction Price Allocated to Future Performance Obligations

We have elected to apply certain optional exemptions that limit the disclosure requirements over remaining performance obligations at period end to exclude: performance obligations that have an original expected duration of one year or less, transactions using the "as invoiced" practical expedient, or when a performance obligation is a series and we have allocated the variable consideration directly to the services performed. After considering the above exemptions, the transaction prices allocated to unsatisfied or partially satisfied performance obligations as of September 30, 2019 totaled \$0.2 million, which is expected to be recognized over the next 2 years as follows: \$0.1 million in 2019 and \$0.1 million in 2020.

Contract Balances

We record a receivable when revenue is recognized prior to invoicing when we have an unconditional right to consideration (only the passage of time is required before payment of that consideration is due) and a contract asset when the right to payment is conditional upon our future performance such as delivery of an additional good or service (e.g. customer contract requires customer's final acceptance of custom database solution or delivery of final marketing strategy delivery presentation before customer payment is required). If invoicing occurs prior to revenue recognition, the unearned revenue is presented on our Condensed Consolidated Balance Sheet as a contract liability, referred to as deferred revenue. The following table summarizes our contract balances as of September 30, 2019 and December 31, 2018:

In thousands	September 30, 2019		December 31, 2018	
Contract assets	\$	986	\$	2,362
Deferred revenue and customer advances		4,286		6,034
Deferred revenue, included in other long-term liabilities		904		578

Revenue recognized during the nine months ended September 30, 2019 from amounts included in deferred revenue at December 31, 2018 was approximately \$4.1 million. We recognized no revenues during the nine months ended September 30, 2019 from performance obligations satisfied or partially satisfied in previous periods.

Costs to Obtain and Fulfill a Contract

We recognize an asset for the direct costs incurred to obtain and fulfill our contracts with customers to the extent that we expect to recover these costs and if the benefit is longer than one year. These costs are amortized to expense over the expected

period of benefit in a manner that is consistent with the transfer of the related goods or services to which the asset relates. We capitalized a portion of commission expense that represents the cost to obtain a contract. The remaining unamortized contract costs were \$2.1 million as of September 30, 2019. For the periods presented, no impairment was recognized.

Note D - Leases

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

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

As of September 30, 2019, assets recorded under finance and operating leases were approximately \$1.0 million and \$19.6 million respectively, and accumulated depreciation associated with finance leases was \$0.3 million. Operating lease right of use assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The discount rate used to determine the commencement date present value of lease payment is the interest rate implicit in the lease, or when that is not readily determinable, we utilized our incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received.

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

In thousands	As of September 30, 2019		
	Operating Leases	Finance Leases	Total
Right-of-use Assets	19,647	1,037	\$ 20,684
Liabilities			
Short-term lease liabilities	7,625	423	8,048
Long-term lease liabilities	14,105	473	14,578
Total Lease Liabilities	<u>\$ 21,730</u>	<u>\$ 896</u>	<u>\$ 22,626</u>

For the three and nine months ended September 30, 2019, the components of lease expense were as follows:

In thousands	Three Months Ended September	Nine Months Ended September
	30, 2019	30, 2019
Operating lease cost	\$ 2,347	\$ 6,940
Finance lease cost		
Amortization of right-of-use assets	75	225
Interest on lease liabilities	16	54
Total Finance lease cost	91	279
Variable lease cost	614	1,991
Total lease cost	<u>\$ 3,052</u>	<u>\$ 9,210</u>

Other information related to leases was as follows:

In thousands	Nine Months Ended September 30, 2019	
Supplemental Cash Flows Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	13,076
Operating cash flows from finance leases		63
Financing cash flows from finance leases		344
Weighted Average Remaining Lease term		
Operating leases		3.46
Finance leases		2.90
Weighted Average Discount Rate		
Operating leases		4.71%
Finance leases		6.68%

The maturities of the Company's finance and operating lease liabilities as of September 30, 2019 are as follows:

In thousands	Operating Leases		Finance Leases	
Year Ending December 31,				
Remainder of 2019	\$	2,359	\$	459
2020		7,867		200
2021		5,794		160
2022		3,941		141
2023		2,188		3
2024		1,397		—
Total future minimum lease payments		23,546		963
Less: Imputed interest		1,816		67
Total lease liabilities	\$	21,730	\$	896

As previously disclosed in our 2018 10-K and under the previous lease accounting standard, ASC 840, *Leases*, the total commitment for non-cancelable operating and finance leases was \$35.0 million and \$1.3 million as of December 31, 2018:

In thousands	Operating Leases	Finance Leases
Year Ending December 31,		
2019	\$ 9,645	\$ 748
2020	8,815	307
2021	7,425	131
2022	5,456	133
2023	2,349	104
Thereafter	1,328	—
Total future minimum lease payments	\$ 35,018	\$ 1,423
Less: imputed interest		\$ 120
Total		\$ 1,303

As of September 30, 2019, we have no additional 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 ("Preferred Stock"). On January 30, 2018, we issued 9,926 shares of our Series A Preferred Stock to Wipro, LLC (as further described in Note A above under the heading "Securities Purchase Agreement") at an issue price of \$1,000 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 are netted against the gross proceeds of \$9.9 million on our Condensed Consolidated Financial Statements.

Series A Preferred Stock has the following rights and privileges:

Liquidation Rights

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

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

Dividends

Upon liquidation, dissolution or winding down of the Company, or a Fundamental Transaction, shares of Series A Preferred Stock which have not been otherwise converted to Common Stock, shall be entitled to receive dividends that accrue at a rate of (i) 5% each year, or (ii) the rate that cash dividends were paid in respect of common stock (with Series A Preferred Stock being paid on an as-converted basis in such case) for such year if such rate is greater than 5%. Dividends on the Series A Preferred Stock are cumulative and accrue to the holders thereof whether or not declared by the Board of Directors. Dividends are payable solely upon a Liquidation (as defined in the Certificate of Designation), and only if prior to such Liquidation such shares of Series A Preferred Stock have not been converted to Common Stock. As of September 30, 2019, cumulative dividends payable to the holders of Series A Preferred Stock upon a Liquidation totaled \$0.8 million or \$83.43 per share of Series A Preferred Stock.

Conversion

At the option of the holders of Series A Preferred Stock, shares of Series A Preferred Stock may be converted into Common Stock at a rate of 100.90817 shares of Common Stock for one share of Series A Preferred Stock, subject to certain future adjustments.

Voting and Other Rights

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

We determined that the Series A Preferred Stock has contingent redemption provisions allowing redemption by the holder upon certain defined events. As the event that may trigger the redemption of the Series A Preferred Stock is not solely within our control, the Series A Preferred Stock is classified as mezzanine equity (temporary equity) in the Condensed Consolidated Balance Sheet as of September 30, 2019.

Note F — Long-Term Debt

As of September 30, 2019 and December 31, 2018, we had \$18.7 million and \$14.2 million of borrowings outstanding under the Texas Capital Facility (as defined herein). As of September 30, 2019, we had the ability to borrow an additional \$0.5 million under the facility.

Credit Facilities

On April 17, 2017, we entered into a secured credit facility with Texas Capital Bank, N.A., that provided a \$20.0 million revolving credit facility (the "Texas Capital Credit Facility") and letters of credit issued by Texas Capital Bank up to \$5.0 million. The Texas Capital Credit Facility will be used for general corporate purposes. The Texas Capital Credit Facility is secured by substantially all of the Company's assets and its material domestic subsidiaries. The Texas Capital Credit Facility is guaranteed by HHS Guaranty, LLC, an entity formed to provide credit support for Harte Hanks by certain members of the Shelton family (descendants of one of our founders).

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

The Texas Capital Credit Facility is subject to customary covenants requiring insurance, legal compliance, payment of taxes, prohibition of second liens, and secondary indebtedness, as well as the filing of quarterly and annual financial statements. The Company has been in compliance of all the requirements.

The Texas Capital Credit Facility originally had an expiration date of April 17, 2019, at which point all outstanding amounts would have been due. On January 9, 2018, we entered into an amendment to the Texas Capital Credit Facility that increased the borrowing capacity to \$22.0 million and extended the maturity by one year to April 17, 2020. On May 7, 2019, we entered into an amendment to the Texas Capital Credit Facility which further extended the maturity of the facility by one year to April 17, 2021. The Texas Capital Credit Facility remains secured by substantially all of our assets and continues to be guaranteed by HHS Guaranty, LLC.

At September 30, 2019, we had letters of credit outstanding in the amount of \$2.8 million. No amounts were drawn against these letters of credit at September 30, 2019. These letters of credit exist to support insurance programs relating to workers' compensation, automobile, and general liability.

Note G — Stock-Based Compensation

We maintain stock incentive plans for the benefit of certain officers, directors, and employees, including the 2013 Omnibus Incentive Plan. Our stock incentive plans include 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 a 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 Condensed Consolidated Statements of Comprehensive (Loss) Income. We recognized \$0.3 million and \$(2.0) million of stock-based compensation expense (benefit) during the three months ended September 30, 2019 and 2018, respectively. We recognized \$0.7 million and \$(0.7) million of stock-based compensation expense (benefit) during the nine months ended September 30, 2019 and 2018, respectively. The stock-based compensation expense for 2018 was a credit due to forfeitures resulting from departures by officers of the Company.

Note H — Components of Net Periodic Benefit Cost

Prior to January 1, 1999, we maintained a defined benefit pension plan for which most of our employees were eligible (the "Qualified Pension 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 our Qualified Pension Plan were it not for limitations imposed by income tax regulation. The Restoration Pension Plan was 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.

Net pension cost for both plans included the following components:

In thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest cost	\$ 1,813	\$ 1,685	\$ 5,439	\$ 5,055
Expected return on plan assets	(1,111)	(1,524)	(3,333)	(4,571)
Recognized actuarial loss	732	689	2,197	2,068
Net periodic benefit cost	\$ 1,434	\$ 850	\$ 4,303	\$ 2,552

We made \$2.2 million minimum contribution to our Qualified Pension Plan in 2019.

We are not required to make, and do not intend to make, any contributions to our Restoration Pension Plan other than to the extent needed to cover benefit payments. We made benefit payments under this supplemental plan of \$0.4 million and \$1.3 million in the three and nine months ended September 30, 2019, respectively.

Note I - Income Taxes

Our income tax expense of \$0.1 million for the three months ended September 30, 2019 resulted in a negative effective income tax rate of 1.7%. Our nine months ended September 30, 2019 income tax expense of \$0.8 million resulted in a negative effective income tax rate of 3.7%. The effective income tax rate for the three and nine months ended September 30, 2019 differs from the federal statutory rate of 21.0%, primarily due to valuation allowances recorded on our deferred tax assets for current period federal net operating losses incurred, as we have concluded that it is more likely than not that these deferred tax assets will not be realized.

Our income tax benefit of \$1.4 million for the three months ended September 30, 2018 resulted in an effective income tax rate of 12.6%. Our nine months ended September 30, 2018 income tax benefit of \$10.8 million resulted in a negative effective income tax rate of 211.4%. The effective income tax benefit calculated for the three months ended September 30, 2018 differs from the federal statutory rate of 21.0%, primarily due to valuation allowances recorded on our deferred tax assets for current period federal net operating losses incurred, as we have concluded that it is more likely than not that these deferred tax assets will not be realized. The effective income tax benefit for the nine months ended September 30, 2018 differs from the federal statutory rate of 21.0%, primarily due to the capital loss generated from the sale of 3Q Digital which will be available for carryback.

We have in general historically calculated the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full calendar year to ordinary income or loss for the reporting period. However, we have used a discrete effective tax rate method to calculate income taxes for the three and nine months ended September 30, 2019 and September 30, 2018 because we determined that our ordinary income or loss cannot be reliably estimated and small changes in estimated ordinary income would result in significant changes in the estimated annual effective tax rate.

Effective January 1, 2019 we adopted ASU 2018-02 which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the reduction of the U.S. federal statutory income tax rate from 35% to 21% due to the enactment of the U.S. Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act"). As a result of the adoption, we reclassified \$11.4 million of stranded tax effects from accumulated other comprehensive income to retained earnings.

Harte Hanks, or one of our subsidiaries, files income tax returns in the U.S. federal, U.S. state, and foreign jurisdictions. For U.S. state returns, we are no longer subject to tax examinations for tax years prior to 2014. For U.S. federal and foreign returns, we are no longer subject to tax examinations for tax years prior to 2016.

We have elected to classify any interest expense and penalties related to income taxes within income tax expense in our Condensed Consolidated Statements of Comprehensive (Loss) Income. We did not have a significant amount of interest or penalties accrued at September 30, 2019 or December 31, 2018.

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 were as follows:

In thousands, except per share amounts	Three Months Ended September 30,	
	2019	2018
Net loss	\$ (5,988)	\$ (9,984)
Less: Preferred stock dividends	125	125
Loss attributable to common stockholders	\$ (6,113)	\$ (10,109)
Basic loss per Common Share		
Weighted-average common shares outstanding	6,291	6,250
Basic loss per common share	\$ (0.97)	\$ (1.62)
Diluted Loss per Common Share		
Weighted-average shares used to compute earnings/(loss) per share attributable to common shares	6,291	6,250
Diluted Loss per common share	\$ (0.97)	\$ (1.62)
Computation of Shares Used in Diluted Loss Per Common Share		
Weighted-average common shares outstanding	6,291	6,250
Shares used in diluted loss per common share computations	6,291	6,250

For the three months ended September 30, 2019 and 2018, respectively, the following shares have been excluded from the calculation of shares used in the diluted EPS calculation: 0.1 million and 0.2 million shares of anti-dilutive market price options; 0.2 million and 0.1 million of anti-dilutive unvested shares; and 1.0 million and 0 shares of anti-dilutive preferred stock (as if converted).

In thousands, except per share amounts	Nine Months Ended September 30,	
	2019	2018
Numerator:		
Net (loss) income	\$ (23,318)	\$ 15,909
Less: Preferred stock dividend	371	332
Less: Earnings attributable to participating securities	—	1,957
Numerator for basic EPS: (loss) income attributable to common stockholders	\$ (23,689)	\$ 13,620
Effect of dilutive securities:		
Add back: Allocation of earnings to participating securities	—	1,957
Less: Re-allocation of earnings to participating securities considering potentially dilutive securities	—	(1,951)
Numerator for diluted EPS	\$ (23,689)	\$ 13,626
Denominator:		
Basic EPS denominator: weighted-average common shares outstanding	6,277	6,230
Effect of dilutive securities:		
Unvested shares	—	21
Diluted EPS denominator	6,277	6,251
Basic (loss) earnings per common share	\$ (3.77)	\$ 2.19
Diluted (loss) earnings per common share	\$ (3.77)	\$ 2.18

For the nine months ended September 30, 2019 and 2018, respectively, the following shares have been excluded from the calculation of shares used in the diluted EPS calculation: 0.1 million and 0.3 million of anti-dilutive market price options; 0.2 million and 0.1 million anti-dilutive unvested shares; and 1.0 million and 0 shares of anti-dilutive preferred stock (as if converted).

Note K — Comprehensive (Loss) Income

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

In thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net (loss) Income	\$ (5,988)	\$ (9,984)	(23,318)	\$ 15,909
Other comprehensive income (loss):				
Adjustment to pension liability	732	689	2,197	2,068
Tax expense	(183)	(172)	(549)	(516)
	549	517	1,648	1,552
Foreign currency translation adjustment, net of tax	(660)	(248)	(311)	(1,207)
Adoption of ASU 2018-2	—	—	(11,355)	—
Total other comprehensive income (loss), net of tax	(111)	269	(10,018)	345
Total comprehensive (loss) income	\$ (6,099)	\$ (9,715)	\$ (33,336)	\$ 16,254

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

In thousands	Defined Benefit Pension Items	Foreign Currency Items	Total
Balance at December 31, 2018	\$ (46,584)	\$ 101	\$ (46,483)
Other comprehensive income (loss), net of tax, before reclassifications	—	(311)	(311)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax, to other, net, on the condensed consolidated statements of comprehensive (loss) income	1,648	—	1,648
Adoption of ASU 2018-02	(11,355)	—	(11,355)
Net current period other comprehensive income (loss), net of tax	(9,707)	(311)	(10,018)
Balance at September 30, 2019	\$ (56,291)	\$ (210)	\$ (56,501)

In thousands	Defined Benefit Pension Items	Foreign Currency Items	Total
Balance at December 31, 2017	\$ (45,418)	\$ 1,115	\$ (44,303)
Other comprehensive (loss), net of tax, before reclassifications	—	(1,207)	(1,207)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax, to other, net, on the condensed consolidated statements of comprehensive (loss) income	1,552	—	1,552
Net current period other comprehensive income (loss), net of tax	1,552	(1,207)	345
Balance at September 30, 2018	\$ (43,866)	\$ (92)	\$ (43,958)

Reclassification amounts related to the defined pension plans are included in the computation of net periodic pension benefit cost (see Note H, *Components of Net Periodic Benefit Cost*).

Note L — Litigation and Contingencies

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

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

In the opinion of management, appropriate and adequate accruals for legal matters have been made, and management believes that the probability of a material loss beyond the amounts accrued is remote. Nevertheless, we cannot predict the impact of future developments affecting our pending or future claims and lawsuits. We expense legal costs as incurred, and all recorded legal liabilities are adjusted as required as better information becomes available to us. The factors we consider when recording an accrual for contingencies include, among others: (i) the opinions and views of our legal counsel; (ii) our previous experience; and (iii) the decision of our management as to how we intend to respond to the complaints.

Note M — Disposition

On February 28, 2018, we sold our 3Q Digital, Inc. subsidiary ("3Q Digital") to an entity owned by certain former owners of the 3Q Digital business. Consideration for the sale included \$5.0 million in cash proceeds, subject to certain working capital adjustments, and up to \$5.0 million in additional consideration ("Contingent Payment") if the 3Q Digital business is sold again (provided certain value thresholds are met) ("Qualified Sale"). The \$35.0 million contingent consideration obligation of the Company that related to our acquisition of 3Q Digital in 2015 was assigned to the buyer, thereby relieving us of the obligation. In addition, the identified intangible assets with definite lives for client relationships and non-compete agreements were written-off as a component of the gain on sale.

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

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

In thousands	Fair Value
Accrued contingent consideration liability as of December 31, 2017	\$ 33,887
Accretion of interest	742
Disposition	(34,629)
Accrued contingent consideration liability as of September 30, 2018	\$ —

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

Note N — Certain Relationships and Related Party Transactions

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

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

During the three and nine months ended September 30, 2019 and 2018, we recorded an immaterial amount of revenue for services we provided to Wipro.

During the three months ended September 30, 2019 and 2018, we recorded \$2.6 million and \$3.2 million of expense, respectively, in technology-related services and lease expense for a facility Wipro provided to us. During the nine months ended September 30, 2019 and September 30, 2018, we recorded \$9.5 million and \$9.3 million of expense, respectively, in technology-related services and lease expense for a facility Wipro provided to us. Included in the \$9.5 million of expense for the nine months ended September 30, 2019 was a one-time termination charge of \$2.1 million because in the first quarter of 2019 we terminated several technology related service agreements with Wipro and entered into new agreements resulting in \$3.3 million of annual savings. In Q3 2019, we terminated a portion of the new agreements with Wipro. We also incurred \$0.7 million of termination charge related to an additional service agreement with Wipro.

During the three and nine months ended September 30, 2019, we capitalized \$0 and \$1.7 million, respectively, for internally developed software services received from Wipro. These remaining capitalized costs are included in Property, Plant and Equipment on the Condensed Consolidated Balance Sheet as of September 30, 2019.

As of September 30, 2019 and December 31, 2018, we had trade payables due to Wipro of \$1.4 million and \$5.0 million, respectively. As of September 30, 2019 and December 31, 2018, we had an immaterial amount in trade receivables due from Wipro.

In the third quarter of 2019, we entered a business relationship with Snap Kitchen, the founder of which is a 7% owner of Harte Hanks.

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

Note O — Restructuring Activities

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

In the three and nine months ended September 30, 2019, we recorded restructuring charges of \$3.1 million and \$10.9 million, respectively. This comprised charges mainly related to customer database build write offs, termination fees related to certain contracts with Wipro, severance agreements, asset impairment and facility related expense. The following table summarizes the restructuring charges which are recorded in "Restructuring Expense" in the Condensed Consolidated Statement of Comprehensive (Loss) Income.

In thousands	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
Customer database build write off	\$	—	\$	4,036
Contract termination fee		667		2,767
Severance		1,116		1,760
Facility, asset impairment and other expense		1,297		2,304
Total	\$	3,080	\$	10,867

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

In thousands	Three months Ended September 30, 2019				
	Contract Termination Fee	Severance	Facility, asset impairment and other expense	Total	
Beginning Balance:	\$ 2,100	\$ 231	\$ 76	\$	2,407
Additions:	667	1,116	452		2,235
Payments	(700)	(739)	(387)		(1,826)
Ending Balance:	<u>\$ 2,067</u>	<u>\$ 608</u>	<u>\$ 141</u>	<u>\$</u>	<u>2,816</u>

In thousands	Nine Months Ended September 30, 2019				
	Contract Termination Fee	Severance	Facility, asset impairment and other expense	Total	
Beginning balance:	\$ —	\$ —	\$ —	\$	—
Additions:	2,767	1,760	528		5,055
Payments	(700)	(1,152)	(387)		(2,239)
Ending balance:	<u>\$ 2,067</u>	<u>\$ 608</u>	<u>\$ 141</u>	<u>\$</u>	<u>2,816</u>

We expect that in connection with our cost-saving and restructuring initiatives, we will incur total restructuring charges of approximately \$14.0 million through 2020. One of the larger initiatives to combine sub-scale production environments received Board approval on August 1, 2019. This will result in the closing of three production facilities by the end of 2019 and consolidating the work currently performed at these facilities into other production facilities. The related lease impairment charge of \$0.9 million was recorded in the three months ended September 30, 2019.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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, as amended (the "1933 Act") and Section 21E of the 1934 Act, as amended. Forward-looking statements may also be included in our other public filings, press releases, our website, and oral and written presentations by management. Statements other than historical facts are forward-looking and may be identified by words such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "seeks," "could," "intends," or "the negative thereof" or similar words of similar meaning. Examples include statements regarding (1) our strategies and initiatives, (2) restructuring activities and other adjustments to our cost structure and other actions designed to respond to market conditions and improve our performance, and the anticipated effectiveness and expenses associated with these actions, (3) our financial outlook for revenues, earnings per share, operating income, expense related to equity-based compensation, capital resources and other financial items, (4) expectations for our businesses and for the industries in which we operate, including the impact of economic conditions of the markets we serve on the marketing expenditures and activities of our clients and prospects, (5) competitive factors, (6) acquisition, disposition, and development plans, (7) expectations regarding legal proceedings and other contingent liabilities, (8) the impact of recent tax reform legislation on our results of operations, and (9) other statements regarding future events, conditions, or outcomes.

These forward-looking statements are based on current information, expectations, and estimates and involve risks, uncertainties, assumptions, and other factors that are difficult to predict and that could cause actual results to vary materially from what is expressed in or indicated by the forward-looking statements. In that event, our business, financial condition, results of operations, or liquidity could be materially adversely affected and investors in our securities could lose part or all of their investments. Some of these risks, uncertainties, assumptions, and other factors can be found in our filings with the Securities and Exchange Commission, including the factors discussed under "Item 1A. Risk Factors" in the 2018 10-K, Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 and in the "Cautionary Note Regarding Forward-Looking Statements" in our second quarter 2019 earnings release issued on August 8, 2019. 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.

Overview

The following MD&A section is intended to help the reader understand the results of operations and financial condition of Harte Hanks, Inc. and its subsidiaries. This section is provided as a supplement to, and should be read in conjunction with, our Condensed Consolidated Financial Statements and the accompanying notes as well as our 2018 10-K. Our 2018 10-K contains a discussion of other matters not included herein, such as disclosures regarding critical accounting policies and estimates, and contractual obligations. The following MD&A of Financial Condition and Results of Operations gives retroactive effect to the Reverse Stock Split for all periods presented, unless otherwise noted. See Note A, *Overview and Significant Accounting Policies*, in the Notes to Condensed Consolidated Financial Statements for further information.

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

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

- Agency
- Digital Solutions
- Database Marketing Solutions

- Direct mail
- Mail and Product Fulfillment
- Logistics
- Contact centers

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

We continued to face a challenging competitive environment in 2019. The sale of 3Q Digital in 2018, together with our restructuring efforts that are meant to decrease recurring expenses, are all parts of our efforts to prioritize our investments and focus on our core business of optimizing our clients' customer journey across an omni-channel delivery platform. We expect these actions will enhance our liquidity and financial flexibility. We have taken actions to return the business to profitability and improve our cash, liquidity, and financial position. This includes workforce restructuring, making investments targeted at improving product offerings, and implementing expense reductions. For additional information, see "Liquidity and Capital Resources" section.

Recent Developments

Restructuring Activities

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

In the three and nine months ended September 30, 2019, we recorded restructuring charges of \$3.1 million and \$10.9 million, respectively. These comprised mainly charges related to customer database build write offs, termination fees related to certain contracts with Wipro, severance agreements, asset impairment and facility related expenses.

We expect that in connection with our cost-saving and restructuring initiatives, we will incur total restructuring charges of approximately \$14.0 million through 2020. One of the larger initiatives to combine sub-scale production environments received Board approval on August 1, 2019. This will result in the closing of three production facilities by the end of 2019 and consolidating the work currently performed in these facilities into other production facilities. The related lease impairment charge of \$0.9 million was recorded in the three months ended September 30, 2019.

Results of Operations

Operating results were as follows:

In thousands, except percentages	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Revenues	\$ 51,414	\$ 63,588	(19.1)%	\$ 165,250	\$ 214,417	(22.9)%
Operating expenses	55,889	73,941	(24.4)%	187,278	236,114	(20.7)%
Operating Loss	\$ (4,475)	\$ (10,353)	(56.8)%	\$ (22,028)	\$ (21,697)	1.5 %
Operating margin	(8.7)%	(16.3)%		(13.3)%	(10.1)%	
(Loss) income before taxes	\$ (5,886)	\$ (11,421)	(48.5)%	\$ (22,478)	\$ 5,109	(540.0)%
Diluted (Loss) income per common share from operations	\$ (0.97)	\$ (1.62)	(40.1)%	\$ (3.77)	\$ 2.18	(272.9)%

Revenues

Three months ended September 30, 2019 vs. Three months ended September 30, 2018

Revenues declined \$12.2 million, or 19.1%, in the three months ended September 30, 2019, compared to the three months ended September 30, 2018. These results reflect the impact of declines in almost all of our industry verticals. Revenues declined in our retail, B2B, financial services, consumer and transportation verticals by \$6.1 million, or 41.1%, \$2.8 million, or 19.8%, \$1.6 million, or 11.8%, \$1.5 million, or 11.6%, and \$1.1 million, or 25.6%, respectively. These declines were primarily due to lost clients and lower volumes from existing clients. Healthcare increased slightly by \$0.9 million, or 20.0%.

Nine months ended September 30, 2019 vs. Nine months ended September 30, 2018

Revenues declined \$49.2 million, or 22.9%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. These results reflect the impact of declines in almost all of our industry verticals. Revenues declined in our retail, consumer, B2B, transportation, and financial services verticals by \$15.1 million, or 32.2%, \$12.7 million, or 26.5%, \$12.5 million, or 26.2%, \$5.7 million, or 33.6% and \$5.3 million, or 12.6%, respectively. These declines were partially due to the sale of 3Q Digital at the end of February 2018, which led to \$6.9 million of the revenue reduction in 2019 as compared to the nine months ended September 30, 2018 and primarily impacted the B2B and Consumer verticals. Additionally, non-renewing clients and lower volumes from existing clients caused the further decrease in revenues. Healthcare increased slightly by \$2.1 million, or 16.4%.

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

Operating Expenses

Three months ended September 30, 2019 vs. Three months ended September 30, 2018

Operating expenses were \$55.9 million in the three months ended September 30, 2019, compared to \$73.9 million in the three months ended September 30, 2018. Labor costs declined \$7.0 million, or 19.7%, compared to the three months ended September 30, 2018, primarily due to lower payroll expense from lower revenue and our expense reduction efforts. Production and distribution expenses declined \$5.7 million, or 24.8%, compared to the third quarter of 2018 primarily due to lower revenue and cost reduction initiatives. Advertising, Selling, General and Administrative expense decreased \$4.0 million, or 41.8%, compared to the three months ended September 30, 2018, primarily due to \$1.7 million lower professional services and \$0.8 million lower employee expense and \$0.4 million lower business services expense from lower revenue. Depreciation, software and intangible asset amortization expense declined \$0.5 million, or (29.7)%, compared to the prior year quarter, primarily due to lower capital expenditure.

Nine months ended September 30, 2019 vs. Nine months ended September 30, 2018

Operating expenses were \$187.3 million in the nine months ended September 30, 2019, compared to \$236.1 million in the nine months ended September 30, 2018. This decline was partially caused by the sale of 3Q Digital (caused a \$5.8 million total operating expense reduction to the nine-month period-over-period results). Labor costs declined \$32.0 million, or 25.4%, compared to the nine months ended September 30, 2018, primarily due to lower payroll expense as a result of our expense reduction efforts and the sale of 3Q Digital (caused a \$4.8 million expense reduction to the nine-month period-over-period results). Production and distribution expenses declined \$15.4 million, or 20.9%, compared to the nine months ended September 30, 2018 primarily due to lower transportation service expense, lower broker production expense and lower production service expense due to lower revenue. The sale of 3Q Digital caused a \$0.4 million expense reduction to the nine-month period-over-period results. Advertising, Selling and General expense declined \$6.7 million, or 24.8%, compared to the nine months ended September 30, 2018, primarily due to a reduction in employee-related expenses and lower professional service expense as well as the sale of 3Q Digital (caused a \$0.6 million expense reduction to the nine-month period-over-period results). Depreciation, software and intangible asset amortization expense declined \$1.9 million, or 31.6%, compared to the nine months ended September 30, 2018, primarily due to the reduced capital expenditures and the elimination of the intangible assets on the sale of 3Q Digital.

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

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

Operating Loss

Three months ended September 30, 2019 vs. Three months ended September 30, 2018

Operating loss was \$4.5 million in the three months ended September 30, 2019, compared to \$10.4 million in three months ended September 30, 2018. The \$5.9 million improvement was primarily driven by the impact of the restructuring activities with a \$18.1 million decline in operating expenses which was partially offset by \$12.2 million lower revenue.

Nine months ended September 30, 2019 vs. Nine months ended September 30, 2018

Operating loss was \$22.0 million in the nine months ended September 30, 2019, compared to \$21.7 million in nine months ended September 30, 2018. The \$0.3 million increase in loss was related to revenue of \$49.2 million, which was offset by \$48.8 million decline in operating expenses due to restructuring activities. The sale of 3Q Digital in late February 2018 resulted in \$1.1 million of the lower operating income.

Interest Expense

Three months ended September 30, 2019 vs. Three months ended September 30, 2018

Interest expense, net, in the three months ended September 30, 2019 increased \$0.2 million compared to the three months ended September 30, 2018. This increase was due to interest incurred under increased borrowings outstanding under the Texas Capital Facility as of September 30, 2019. As of September 30, 2019, \$18.7 million was outstanding under the Facility.

Nine months ended September 30, 2019 vs. Nine months ended September 30, 2018

Interest expense, net, in the nine months ended September 30, 2019 decreased \$0.4 million compared to the nine months ended September 30, 2018. The decline was due to the elimination of interest accretion expense related to the 3Q Digital contingent consideration liability as of February 2018 which was partially offset by higher interest expense associated with increased borrowings outstanding under the Texas Capital Facility as of September 30, 2019.

Gain on sale

The gain on sale for nine months ended September 30, 2019 is the result of \$5 million Contingent Payment we received related to the Qualified Sale of 3Q Digital as defined in the Purchase and Sales Agreement dated February 28, 2018.

The gain on sale for nine months ended September 30, 2018 is the result of the sale of 3Q Digital in late February 2018 whereby the sum of proceeds received plus net obligations eliminated resulted in a gain on sale of \$31.0 million.

Other Income and Expense

Three months ended September 30, 2019 vs. Three months ended September 30, 2018

Other expense, net, increased \$0.2 million in the three months ended September 30, 2019, compared to the three months ended September 30, 2018 mainly due to increased pension expenses.

Nine months ended September 30, 2019 vs. Nine months ended September 30, 2018

Other expense, net, increased \$1.7 million in the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018 mainly due to changes in pension expense and foreign currency revaluation.

Income Taxes

Three months ended September 30, 2019 vs. Three months ended September 30, 2018

The income tax expense of \$0.1 million in the third quarter of 2019 represents a decrease in benefit of \$1.5 million when compared to the third quarter of 2018. Our effective tax rate was negative 1.7% for the third quarter of 2019, decreasing from a rate of 12.6% for the third quarter of 2018. The effective income tax rate calculated for the three months ended September 30, 2019 differs from the federal statutory rate of 21.0%, primarily due to valuation allowances recorded on our deferred tax assets for current period federal net operating losses incurred, as we have concluded that it is more likely than not that these deferred tax assets will not be realized.

Nine months ended September 30, 2019 vs. Nine months ended September 30, 2018

The income tax expense of \$0.8 million in the nine months ended September 30, 2019 represents a decrease in our income tax benefit of \$11.6 million, as compared to nine months ended September 30, 2018. Our effective tax rate was negative 3.7% for the first nine months of 2019, increasing from a rate of negative 211.4% for the first nine months of 2018. The effective income tax rate for the first nine months of 2019 differs from the federal statutory rate of 21.0%, primarily due to valuation allowances recorded on our deferred tax assets for current period federal net operating losses incurred, as we have concluded that it is more likely than not that these deferred tax assets will not be realized.

We have in general historically calculated the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full calendar year to ordinary income or loss for the reporting period. However, we used a discrete effective tax rate method to calculate income taxes for the three and nine month ended September 30, 2019 and September 30, 2018 because we determined that our ordinary income or loss cannot be reliably estimated and small changes in estimated ordinary income would result in significant changes in the estimated annual effective tax rates.

Liquidity and Capital Resources

Sources and Uses of Cash

Our cash and cash equivalent balances were \$31.7 million and \$20.9 million at September 30, 2019 and December 31, 2018, respectively. Our principal sources of liquidity are cash on hand, cash provided by operating activities, and borrowings. Our cash is primarily used for general corporate purposes, working capital requirements, and capital expenditures.

On June 26, 2019, we received \$15.9 million in aggregate federal income tax refunds related to carryback of capital losses. On May 7, 2019, we received a \$5 million Contingent Payment related to the Qualified Sale of 3Q Digital.

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 and operating leases) and other cash needs for our operations for at least the next twelve months through a combination of cash on hand, cash flow from operations, and borrowings under the Texas Capital Credit Facility. Although the Company believes that it will be able to meet its cash needs for the foreseeable future, if unforeseen circumstances arise the Company may need to seek alternative sources of liquidity.

Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2019 was \$9.4 million, compared to net cash used by operating activities of \$7.0 million for the nine months ended September 30, 2018. The \$16.4 million year-over-year increase was primarily the result of \$20.5 million tax refund received which was partially offset by decreases in accounts payable in the nine months ended September 30, 2019 as compared to 2018.

Investing Activities

Net cash used in investing activities was \$1.6 million for the nine months ended September 30, 2019, compared to the net cash provided by investing activities of \$1.3 million for the nine months ended September 30, 2018. This change was mainly due to the sale of 3Q Digital in late February 2018.

Financing Activities

Net cash provided by financing activities was \$3.4 million for the nine months ended September 30, 2019, compared to \$8.9 million for the nine months ended September 30, 2018. The \$5.4 million decrease was primarily due to the issuance of the Series A Preferred Stock in the first quarter of 2018 which was partially offset by \$4.5 million of borrowings under the Company's Texas Capital Credit Facility in the first quarter of 2019.

Foreign Holdings of Cash

Consolidated foreign holdings of cash as of September 30, 2019 and 2018 were \$3.2 million and \$2.3 million, respectively.

Credit Facilities

On January 9, 2018, we entered into an amendment to the Texas Capital Credit Facility that increased the borrowing capacity to \$22.0 million and extended the maturity by one year to April 17, 2020. On May 7, 2019, we entered into an amendment to the Texas Capital Credit Facility which further extended the maturity of the facility by one year to April 17, 2021. The Texas Capital Credit Facility remains secured by substantially all of our assets and continues to be guaranteed by HHS Guaranty, LLC.

At September 30, 2019, we had letters of credit in the amount of \$2.8 million. No amounts were drawn against these letters of credit at September 30, 2019. These letters of credit exist to support insurance programs relating to workers' compensation, automobile, and general liability.

As of September 30, 2019 and December 31, 2018, we had \$18.7 million and \$14.2 million of borrowings outstanding under the Texas Capital Facility. As of September 30, 2019, we had the ability to borrow an additional \$0.5 million under the facility.

Outlook

We consider such factors as total cash and cash equivalents, current assets, current liabilities, total debt, revenues, operating income, cash flows from operations, investing activities, and financing activities when assessing our liquidity. Our management of cash is designed to optimize returns on cash balances and to ensure that it is readily available to meet our operating, investing, and financing requirements as they arise. We believe that there are no conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern for the 12 months following the issuance of the Condensed Consolidated Financial Statements.

Critical Accounting Policies

Critical accounting policies are defined as those that, in our judgment, are most important to the portrayal of our Company's financial condition and results of operations and which require complex or subjective judgments or estimates. Refer to the 2018 10-K for a discussion of our critical accounting policies.

The following represent changes to our critical accounting policies as described in detail in our 2018 10-K:

- The adoption of ASC 842, *Leases* - the impact of this change in accounting policy is described in detail in Note D of the Notes to Unaudited Condensed Consolidated Financial Statements in this 10Q; and
- Goodwill and intangible assets are no longer included as a critical accounting policy as we no longer have these assets on our condensed consolidated balance sheet

See Recent Accounting Pronouncements under Note B of the Notes to Condensed Consolidated Financial Statements for a discussion of certain accounting standards that have been recently issued.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

On April 17, 2017, we entered into the Texas Capital Credit Facility. On January 9, 2018, we entered an amendment to the Texas Capital Credit Facility that increased the borrowing capacity to \$22 million and extended the maturity by one year to April 17, 2020. As of September 30, 2019, we had \$18.7 million of borrowings outstanding under the Texas Capital Facility.

On May 7, 2019, we entered into an amendment to the Texas Capital Credit Facility which further extended the maturity of the facility by one year to April 17, 2021. The credit facility increased exposure to market risks relating to changes in interest rates because borrowings under the facility bear interest at a variable rate. We do not believe that a one percentage point change in average interest rates would have a material impact on our interest expense. As such, we do not believe that we currently have significant exposure to market risks associated with changing interest rates.

Our earnings are also affected by fluctuations in foreign currency exchange rates as a result of our operations in foreign countries. Our primary exchange rate exposure is to the Euro, British Pound, and Philippine Peso. We monitor these risks throughout the normal course of business. The majority of the transactions of our U.S. and foreign operations are denominated in the respective local currencies. Changes in exchange rates related to these types of transactions are reflected in the applicable line items making up operating income (loss) in our Condensed Consolidated Statements of Comprehensive Income/(Loss). Due to the current level of operations conducted in foreign currencies, we do not believe that the impact of fluctuations in foreign currency exchange rates on these types of transactions is significant to our overall annual earnings. A smaller portion of our transactions are denominated in currencies other than the respective local currencies. For example, intercompany transactions that are expected to be settled in the near-term are denominated in U.S. Dollars. Since the accounting records of our foreign operations are kept in the respective local currency, any transactions denominated in other currencies are accounted for in the respective local currency at the time of the transaction. Any foreign currency gain or loss from these transactions, whether realized or unrealized, results in an adjustment to income, which is recorded in "Other, net" in our Condensed Consolidated Statements of Comprehensive Income (Loss). Transactions such as these amounted to \$0.3 million in pre-tax currency transaction gains in the nine months ended September 30, 2019. At this time, we are 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.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in such reports is accumulated and communicated to management, including our Principal Executive Officer, Chief Financial Officer, and Corporate Controller as appropriate to allow timely decisions regarding required disclosure.

Our management, including our Principal Executive Officer, Chief Financial Officer, and Corporate Controller, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of September 30, 2019, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Principal Executive Officer, Chief Financial Officer and Corporate Controller concluded that our disclosure controls and procedures were not effective as of September 30, 2019 solely due to the material weaknesses in internal control over financial reporting as described in Item 9A of the 2018 10-K.

Notwithstanding the material weaknesses described below, based on the additional analysis and other post-closing procedures performed, we believe the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q are fairly presented in all material respects, in conformity with GAAP.

Material Weakness in Internal Control over Financial Reporting

We identified material weaknesses in the following areas (i) the effectiveness of information and communication, and control activities, and (ii) the effectiveness of internal controls over revenue recognition.

Notwithstanding the material weaknesses, each of our Principal Executive Officer, Chief Financial Officer, and Corporate Controller concluded that the condensed consolidated financial statements included in this report present fairly, in all material respects, our financial position, results of operations, and cash flows as of the dates and for the periods presented, in conformity with U.S. GAAP.

Changes in Internal Control over Financial Reporting

Improvements in the design and operating effectiveness of internal controls over financial reporting that we have effected to date have led to the successful remediation of several previously disclosed material weaknesses including monitoring, control environment and risk assessment. Other than the material weaknesses discussed above, and the successful remediation of previously disclosed material weaknesses related to monitoring, control environment and risk assessment, there have been no changes in our internal controls over financial reporting during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Remediation Plan for Material Weaknesses in Internal Control over Financial Reporting

Management has been actively engaged in remediation efforts to address the material weaknesses throughout fiscal year 2018 and these efforts have continued into fiscal year 2019. We have made progress towards addressing the weakness in information and communication by preparing a comprehensive listing of applications and assessing each to determine its impact on financial reporting. We have identified and documented all the systems utilized as we redesigned processes and controls. We have documented which reports are used in the execution of controls.

Significant progress has been made towards addressing the weakness in revenue recognition. A walk-through has been performed for all significant revenue streams and flow charts have been completed to document these processes. Current key controls have been assessed and mapped to risks within the process. Additional key controls have been identified and designed. We have begun implementing new controls and enhancing the reviews and documentation of currently implemented controls.

We continue to work with the third-party specialists we engaged to review, document, and (as needed) supplement our controls, with the goal of designing and implementing controls that not only better address both the accuracy and precision of management's review, but also enhance our ability to manage our business as it has evolved. In 2018 and the nine months ended September 30, 2019, significant progress was made in relation to the design and implementation of controls. There is still additional work to be done to completely remediate the material weaknesses. However, we expect all the material weaknesses to be remediated by the end of 2019.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding legal proceedings is set forth in Note L, *Litigation and Contingencies*, in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

Item 1a. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our 2018 10-K, which could materially affect our business, financial condition, or future results. The risks described in our 2018 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and operating results. There have been no material changes during the three months ended September 30, 2019 to the risk factors previously disclosed in the 2018 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
*10.1	Second Amendment to Credit Agreement
*10.2	Separation Agreement with Timothy E. Breen
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Furnished Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Furnished Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101	XBRL Instance Document.

*Filed or furnished herewith, as applicable.

**Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HARTE HANKS, INC.

November 12, 2019

Date

/s/ Mark A. Del Priore

Mark A. Del Priore

Executive Vice President and Chief Financial Officer

November 12, 2019

Date

/s/ Lauri Kearnes

Lauri Kearnes

Vice President, Finance and
Corporate Controller

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated as of May 7, 2019, is between HARTE HANKS, INC., a Delaware corporation ("Borrower"), and TEXAS CAPITAL BANK, NATIONAL ASSOCIATION, a national banking association ("Lender").

RECITALS:

- A. Borrower and Lender entered into that certain Credit Agreement dated as of April 17, 2017, as amended by that certain First Amendment to Credit Agreement dated as of January 9, 2018 (as amended, the "Agreement").
- B. Pursuant to the Agreement, Pledgor executed (a) that certain Note Purchase Agreement dated as of January 9, 2018 (the "Note Purchase Agreement") pursuant to which Pledgor agreed to purchase the Revolving Credit Note from Lender upon the circumstances described therein, and that certain Pledge Agreement dated as of April 17, 2017 (the "Pledge Agreement") pursuant to which Pledgor granted to Lender a security interest in the collateral therein described.
- C. Borrower and Lender now desire to amend the Agreement as herein set forth.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I. Definitions

Section 1.1 Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the meanings given to such terms in the Agreement, as amended hereby.

ARTICLE II. Amendments

Section 2.1 Amendment to Certain Definitions. Effective as of the date hereof, the definition of the following term contained in Section 1.1 of the Agreement amended to read in entirety as follows:

"Commitment" means the obligation of Lender to make Revolving Credit Advances pursuant to Section 2.1 in an aggregate principal amount at any time outstanding up to but not exceeding \$22,000,000.00, subject to termination pursuant to Section 10.2.

"Termination Date" means **11:00 A.M., Dallas, Texas time on April 17, 2021, or such earlier date on which the Commitment terminates as provided in this Agreement.**

Section 2.2 Amendment to Exhibits. Effective as of the date hereof, (i) Exhibit "A" (Revolving Credit Note) to the Agreement is amended to conform in its entirety to Annex "A" to this Amendment.

ARTICLE III.

Conditions Precedent

Section 3.1 Conditions. The effectiveness of this Amendment is subject to the receipt by Lender of the following in form and substance satisfactory to Lender:

- (a) Certificate. A certificate of a Secretary or other officer of Borrower acceptable to Lender certifying (i) resolutions of the Board of Directors of Borrower which authorize the execution, delivery and performance by Borrower of this Amendment and the other Loan Documents to which Borrower is or is to be a party and (ii) the names of the officers of Borrower authorized to sign this Amendment and each of the other Loan Documents to which Borrower is or is to be a party together with specimen signatures of such Persons.
-

- (b) **Governmental Certificates.** Certificates issued by the appropriate
- (c) **government officials of the state of incorporation of Borrower and Pledgor as to the existence and good or active, as applicable, standing of Borrower and Pledgor.**
- (d) **Revolving Credit Note.** The Revolving Credit Note executed by Borrower.
- (e) **Note Purchase Agreement.** An amended and restated Note Purchase Agreement executed by Borrower substantially in the form of Annex "B" hereto.
- (f) **Renewal Fee.** A renewal fee in the amount of \$66,000.00. Such renewal fee shall be fully earned when paid.
- (g) **Trustee and Beneficiary Certificates.** A certificate from each of the trustees of the trusts which organized and capitalized Pledgor and from each of the beneficiaries of such trusts, which shall include a written acknowledgement by the beneficiaries of the amended and restated Note Purchase Agreement and its terms and conditions in substantially the form previously given.
- (h) **Opinions of Counsel.** A favorable opinion of Clark Hill Strasburger, legal counsel to the Pledgor, as to such matters as Lender may reasonably request.
- (i) **Additional Information.** Such additional documents, instruments and information as Lender may request.

Section 3.2 Additional Conditions. The effectiveness of this Amendment is also subject to the satisfaction of the additional conditions precedent that (i) the representations and warranties contained herein and in all other Loan Documents, as amended hereby, shall be true and correct as of the date hereof as if made on the date hereof, (ii) all proceedings, corporate or otherwise, taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Lender, and (iii) no Event of Default shall have occurred and be continuing and no event or condition shall have occurred that with the giving of notice or lapse of time or both would be an Event of Default.

ARTICLE IV.

Ratifications, Representations, and Warranties

Section 4.1 Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement are ratified and confirmed and shall continue in full force and effect. Borrower and Lender agree that the Agreement as amended hereby shall continue to be the legal, valid and binding obligation of such Persons enforceable against such Persons in accordance with its terms.

Section 4.2 Representations, Warranties and Agreements. Borrower hereby represents and warrants to Lender that (i) the execution, delivery, and performance of this Amendment and any and all other Loan Documents executed or delivered in connection herewith have been authorized by all requisite corporate action on the part of Borrower and will not violate the Organizational Documents of Borrower, (ii) the representations and warranties contained in the Agreement as amended hereby, and all other Loan Documents are true and correct on and as of the date hereof as though made on and as of the date hereof, (iii) no Event of Default has occurred and is continuing and no event or condition has occurred that with the giving of notice or lapse of time or both would be an Event of Default, (iv) Borrower is in full compliance with all covenants and agreements contained in the Agreement as amended hereby, (v) Borrower is indebted to Lender pursuant to the terms of the Revolving Credit Note, in the form attached hereto, as the same may have been renewed, modified, extended or rearranged, including, without limitation, any renewals, modifications and extensions

made pursuant to this Amendment, (vi) the liens, security interests, encumbrances and assignments created and evidenced by the Loan Documents are, respectively, valid and subsisting liens, security interests, encumbrances and assignments and secure the Revolving Credit Note as the same may have been renewed, modified or rearranged, including, without limitation, any renewals, modifications and extensions made pursuant to this Amendment, and (vii) Borrower has no claims, credits, offsets, defenses or counterclaims arising from the Loan Documents or Lender's performance under the Loan Documents.

ARTICLE V.

Miscellaneous

Section 5.1 Survival of Representations and Warranties. All representations and warranties made in this Amendment or any other Loan Documents including any Loan Document furnished in connection with this Amendment shall fully survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely on them.

Section 5.2 Reference to Agreement. Each of the Loan Documents, including the Agreement and any and all other agreements, documents, or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Agreement, as amended hereby, are hereby amended so that any reference in such Loan Documents to the Agreement shall mean a reference to the Agreement, as amended hereby.

Section 5.3 Expenses of Lender. As provided in the Agreement, Borrower agrees to pay on demand all costs and expenses incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other documents and instruments executed pursuant hereto and any and all amendments, modifications and supplements thereto, including, without limitation, the costs and fees of Lender's legal counsel, and all costs and expenses incurred by Lender in connection with the enforcement or preservation of any rights under the Agreement, as amended hereby, or any other Loan Document, including, without limitation, the costs and fees of Lender's legal counsel.

Section 5.4 Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 5.5 **APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN HOUSTON, HARRIS COUNTY, TEXAS AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.**

Section 5.6 Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns, except Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender.

Section 5.7 Counterparts. This Amendment and the other Loan Documents may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument. Delivery of an executed signature page of this Amendment and/or any other Loan Document by a scanned PDF attached to an e-mail or facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

Section 5.8 Effect of Waiver. No consent or waiver, express or implied, by Lender to or for any breach of or deviation from any covenant, condition or duty by Borrower shall be deemed a consent or waiver to or of any other breach of the same or any other covenant, condition or duty.

Section 5.9 Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 5.10 RELEASE. IN CONSIDERATION OF LENDER'S AGREEMENTS CONTAINED HEREIN, BORROWER (FOR ITSELF AND ON BEHALF OF ITS DIRECTORS, MEMBERS, SHAREHOLDERS, MANAGERS, OFFICERS, EMPLOYEES, AGENTS, PRINCIPALS, AFFILIATES, PREDECESSORS, HEIRS, LEGAL REPRESENTATIVES, SUCCESSORS AND ASSIGNS) HEREBY WAIVES, AND RELEASES LENDER AND ITS OFFICERS, EMPLOYEES, AGENTS, DIRECTORS, SHAREHOLDERS, SUBSIDIARIES, PREDECESSORS, SUCCESSORS AND ASSIGNS FROM, ANY AND ALL CLAIMS, LOSSES, LIABILITIES, DAMAGES, COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES), WHETHER KNOWN OR UNKNOWN, ASSERTED OR UNASSERTED, THAT DIRECTLY OR INDIRECTLY ARISE FROM OR RELATE TO (A) THE NEGOTIATION, EXECUTION, PERFORMANCE, ADMINISTRATION OR ENFORCEMENT OF THE AGREEMENT, ANY OTHER RELATED DOCUMENT OR THIS AMENDMENT, (B) ANY OF THE TRANSACTIONS CONTEMPLATED BY THE AGREEMENT, ANY OTHER RELATED DOCUMENT OR THIS AMENDMENT OR (C) ANY BREACH BY BORROWER OR ANY GUARANTOR OF ANY COVENANT, AGREEMENT OR REPRESENTATION CONTAINED IN THE AGREEMENT, ANY OTHER RELATED DOCUMENT OR THIS AMENDMENT.

Section 5.11 INDEMNIFICATION. BORROWER, INDIVIDUALLY AND ON BEHALF OF ITS DIRECTORS, MEMBERS, SHAREHOLDERS, MANAGERS, OFFICERS, EMPLOYEES, AGENTS, PRINCIPALS, AFFILIATES, PREDECESSORS, HEIRS, LEGAL REPRESENTATIVES, SUCCESSORS AND ASSIGNS (COLLECTIVELY, THE "INDEMNIFYING PARTIES"), HEREBY UNCONDITIONALLY AND IRREVOCABLY INDEMNIFIES AND HOLDS HARMLESS LENDER AND ITS OFFICERS, EMPLOYEES, ATTORNEYS, AGENTS, DIRECTORS, SHAREHOLDERS, SUBSIDIARIES, PREDECESSORS, SUCCESSORS AND ASSIGNS (COLLECTIVELY, THE "INDEMNIFIED PARTIES") FROM AND AGAINST ANY AND ALL COSTS, EXPENSES, CLAIMS, DEMANDS, DAMAGES, ACTIONS, CAUSES OF ACTION, LIABILITY OR SUITS AT LAW OR IN EQUITY, OF WHATEVER KIND OR NATURE, WHETHER ARISING UNDER STATE OR FEDERAL LAW, RULE OR REGULATION, WHETHER NOW EXISTING OR HEREAFTER ARISING, WHETHER KNOWN OR UNKNOWN OR ASSERTED OR UNASSERTED, THAT DIRECTLY OR INDIRECTLY IN ANY WAY RELATE TO, ARE BASED UPON, OR ARISE OUT OF ANY CIRCUMSTANCE, EVENT, MATTER, OCCURRENCE, COURSE OF DEALING, TRANSACTION, FACT, ACT, OMISSION, OBLIGATION, DUTY, RESPONSIBILITY, WARRANTY, STATEMENT OR REPRESENTATION WHATSOEVER RELATED IN ANY WAY TO (A) THE AGREEMENT, (B) THIS AMENDMENT, (C) ANY OTHER RELATED DOCUMENT

OR (D) ANY DOCUMENTS OR INSTRUMENTS EXECUTED IN CONNECTION WITH OR IN EVIDENCE OF ANY INDEBTEDNESS BETWEEN BORROWER AND ANY GUARANTOR AND LENDER (ALL OF WHICH CLAIMS ARE REFERRED TO COLLECTIVELY AS THE "INDEMNIFIED CLAIMS"), INCLUDING, WITH RESPECT TO ALL OF THE ABOVE, INDEMNIFIED CLAIMS WHICH AROSE FROM THE NEGLIGENCE OF AN INDEMNIFIED PARTY, PROVIDED THAT THE OBLIGATIONS OF THE INDEMNIFYING PARTIES UNDER THIS SECTION SHALL NOT APPLY TO THE EXTENT AN INDEMNIFIED CLAIM AROSE FROM AN INDEMNIFIED PARTY'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. EACH INDEMNIFYING PARTY HEREBY COVENANTS AND AGREES NOT TO IN ANY MANNER WHATSOEVER SUE ANY INDEMNIFIED PARTY IN ANY COURT OR TRIBUNAL OR BRING ANY ACTION, LAWSUIT OR CAUSE OF ACTION (WHETHER BY WAY OF DIRECT ACTION, COUNTERCLAIM, CROSSCLAIM OR INTERPLEADER) AGAINST ANY INDEMNIFIED PARTY IN ANY MANNER WHATSOEVER BASED UPON ANY MATTER DIRECTLY OR INDIRECTLY RELATED TO ANY INDEMNIFIED CLAIM.

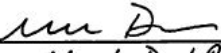
Section 5.12 WAIVER OF TRIAL BY JURY. BORROWER AND LENDER HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN BORROWER AND LENDER ARISING OUT OF OR IN ANY WAY RELATED TO THIS AMENDMENT, THE AGREEMENT, THE OTHER LOAN DOCUMENTS OR ANY RELATIONSHIP BETWEEN BORROWER AND LENDER. THIS PROVISION IS A MATERIAL INDUCEMENT TO LENDER TO PROVIDE THE FINANCING EVIDENCED BY THE AGREEMENT AND THE LOAN DOCUMENTS.

Section 5.13 ENTIRE AGREEMENT. THIS AMENDMENT AND ALL OTHER INSTRUMENTS, DOCUMENTS, AND AGREEMENTS EXECUTED AND DELIVERED IN CONNECTION WITH THIS AMENDMENT EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO WITH RESPECT TO THE SUBJECT MATTER HEREOF AND THEREOF AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS AMENDMENT AND THE OTHER INSTRUMENTS, DOCUMENTS AND AGREEMENTS EXECUTED AND DELIVERED IN CONNECTION WITH THIS AMENDMENT, AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO.

Executed as of the date first written above.

BORROWER:

HARTE HANKS, INC.

By: 
Name: Mark Del Priore
Title: CFO

LENDER:

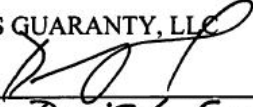
TEXAS CAPITAL BANK, NATIONAL ASSOCIATION

By: 
Annalese Smolik Senior Vice President

[Signature Page to Second Amendment to Credit Agreement]

The undersigned Pledgor hereby consents and agrees to this Amendment and agrees that the Pledge Agreement executed by Pledgor shall remain in full force and effect and shall continue to be the legal, valid and binding obligations of Pledgor, enforceable against Pledgor in accordance with its terms and shall secured the repayment of the Obligations, including, without limitation, as evidenced by the renewal, extension and increase of the Revolving Credit Note in substantially the form of Annex "A" attached hereto, as renewed, extended and/or modified from time to time.

HHS GUARANTY, LLC

By: 
Name: David L. Copeland
Title: Sole Manager

LIST OF ANNEXES

Annex Document

- A Revolving Credit Note
- B Note Purchase Agreement

ANNEX A
REVOLVING CREDIT NOTE

22752888v.7106916/01653

Annex A - i

REVOLVING PROMISSORY NOTE

\$22,000,000.00 May 7, 2019

FOR VALUE RECEIVED, HARTE HANKS, INC., a Delaware corporation ("*Borrower*"), having an address at 9601 McAllister Freeway, Suite 610, San Antonio, Texas 78216, hereby promises to pay to the order of TEXAS CAPITAL BANK, NATIONAL ASSOCIATION, a national banking association (together with its successors and assigns and any subsequent holders of this Note, "*Lender*"), as hereinafter provided, the principal sum of TWENTY-TWO MILLION AND NO/100 DOLLARS (\$22,000,000.00) or so much thereof as may be advanced by Lender from time to time hereunder to or for the benefit or account of Borrower, together with interest thereon at the Note Rate (as hereinafter defined), and otherwise in strict accordance with the terms and provisions hereof.

1. DEFINITIONS

1.1 Definitions. As used in this Note, the following terms shall have the following meanings:

"Applicable Margin" means the percent per annum set forth below:

Applicable Margin for Base Rate Portion	Applicable Margin for LIBOR Portion
-0.75 %	1.95 %

"Base Rate" means for any day, a rate of interest equal to the Prime Rate for such day. "*Borrower*" has the meaning set forth in the introductory paragraph of this Note.

"Business Day" means a weekday, Monday through Friday, except a legal holiday or a day on which banking institutions in Dallas, Texas are authorized or required by law to be closed. Unless otherwise provided, the term "days" when used herein means calendar days.

"Change" means (a) any change after the date of this Note in the risk-based capital guidelines applicable to Lender, or (b) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Note that affects capital adequacy or the amount of capital required or expected to be maintained by Lender or any entity controlling Lender; *provided that* notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "*Change*," regardless of the date enacted, adopted or issued.

"Charges" means all fees, charges and/or any other things of value, if any, contracted for, charged, taken, received or reserved by Lender in connection with the transactions relating to this Note and the other Loan Documents, which are treated as interest under applicable law.

"Credit Agreement" means the Credit Agreement dated as of April 17, 2017, executed by Lender and Borrower, as amended by First Amendment to Credit Agreement dated as of January 9, 2018 and Second Amendment to Credit Agreement dated as of even date herewith, as modified, amended, renewed, extended, and restated from time to time.

"Debtor Relief Laws" means Title 11 of the United States Code, as now or hereafter in effect, or any other applicable law, domestic or foreign, as now or hereafter in effect, relating to bankruptcy, insolvency, liquidation, receivership, reorganization, arrangement or composition, extension or adjustment of debts, or similar laws affecting the rights of creditors.

"Default Interest Rate" means a rate per annum equal to the Note Rate plus four percent (4%), but in no event in excess of the Maximum Rate.

"Event of Default" has the meaning set forth in the Credit Agreement.

"Funding Loss" means the amount (which shall be payable on demand by Lender) necessary to promptly compensate Lender for, and hold it harmless from, any loss, cost or expense incurred by Lender as a result of:

- (a) any payment or prepayment of any Portion bearing interest based upon LIBOR on a day other than the last day of the relevant LIBOR Interest Period (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise); or
- (b) any failure by Borrower to prepay, borrow, continue or convert a Portion bearing or selected to bear interest based upon LIBOR on the date or in the amount selected by Borrower;

including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Portion or from fees payable to terminate the deposits from which such funds were obtained. Borrower shall also pay any customary administrative fees charged by Lender in connection with the foregoing. For purposes of calculating amounts payable by Borrower to Lender hereunder, Lender shall be deemed to have funded the Portion based upon LIBOR by a matching deposit or other borrowing in the London inter-bank market for a comparable amount and for a comparable period, whether or not such Portion was in fact so funded.

"Lender" has the meaning set forth in the introductory paragraph of this Note.

"LIBOR" means, with respect to each LIBOR Interest Period, the rate (expressed as a percentage per annum and adjusted as described in the last sentence of this definition of LIBOR) for deposits in United States Dollars for a term equal to such LIBOR Interest Period as calculated by Intercontinental Exchange (ICE) Benchmark Administration Limited ("ICE") (or any successor thereto) as of 11:00 a.m., London, England time, on the related LIBOR Determination Date. If such rate shall cease to be calculated by ICE (or any successor thereto) or if Lender determines in

good faith that the rate calculated by ICE no longer accurately reflects the rate available to Lender in the London interbank market, LIBOR shall be determined by Lender to be the offered rate as announced by a recognized commercial service as representing the average LIBOR rate for deposits in United States Dollars (for delivery on the first day of such LIBOR Interest Period) for a term

equivalent to such LIBOR Interest Period as of 11:00 a.m. on the relevant LIBOR Determination Date. If the rates referenced in the two preceding sentences are not available, LIBOR for the relevant LIBOR Interest Period will be determined by an alternate method reasonably selected by Lender. LIBOR shall be adjusted from time to time in Lender's sole discretion for then-applicable reserve requirements, deposit insurance assessment rates, marginal emergency, supplemental, special and other reserve percentages, and other regulatory costs.

"LIBOR Banking Day" means a day on which commercial banks in the City of London, England are open for business and dealing in offshore dollars.

"LIBOR Determination Date" means a day that is three (3) LIBOR Banking Days prior to the beginning of the relevant LIBOR Interest Period.

"LIBOR Interest Period" means a period of one (1) month. The first day of the interest period must be a LIBOR Banking Day. The last day of the interest period and the actual number of days during the interest period will be determined by Lender using the practices of the London inter-bank market.

"Loan Documents" has the meaning set forth in the Credit Agreement. **"Maturity Date"** means April 17, 2021.

"Maximum Rate" means, at all times, the maximum rate of interest which may be charged, contracted for, taken, received or reserved by Lender in accordance with applicable Texas law (or applicable United States federal law to the extent that such law permits Lender to charge, contract for, receive or reserve a greater amount of interest than under Texas law). The Maximum Rate shall be calculated in a manner that takes into account any and all fees, payments, and other charges in respect of the Loan Documents that constitute interest under applicable law. Each change in any interest rate provided for herein based upon the Maximum Rate resulting from a change in the Maximum Rate shall take effect without notice to Borrower at the time of such change in the Maximum Rate.

"Note" means this Note.

"Note Rate" means the rate equal to the lesser of (a) the Maximum Rate or (b) the Applicable Rate.

"Payment Date" means the first day of each and every calendar month during the term of this Note.

"Portion" means any principal amount bearing interest based upon the Base Rate or LIBOR.

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"Prime Rate" means, for any day, the rate of interest announced from time to time by Lender as its "base" or "prime" rate of interest, which Borrower hereby acknowledges and agrees may not be the lowest interest rate charged by Lender and is set by Lender in its sole discretion, changing when and as said prime rate changes.

"Related Indebtedness" means any and all indebtedness paid or payable by Borrower to Lender pursuant to the Loan Documents or any other communication or writing by or between Borrower and

Lender related to the transaction or transactions that are the subject matter of the Loan Documents, except such indebtedness which has been paid or is payable by Borrower to Lender under this Note.

1.2 Rules of Construction. Any capitalized term used in this Note and not otherwise defined herein shall have the meaning ascribed to such term in the Credit Agreement. All terms used herein, whether or not defined in *Section 1.1* hereof, and whether used in singular or plural form, shall be deemed to refer to the object of such term whether such is singular or plural in nature, as the context may suggest or require. All personal pronouns used herein, whether used in the masculine, feminine or neutral gender, shall include all other genders; the singular shall include the plural and vice versa.

2. PAYMENT TERMS

2.1 Payment of Principal and Interest; Revolving Nature. All accrued but unpaid interest on the principal balance of this Note outstanding from time to time shall be payable on each Payment Date. The then outstanding principal balance of this Note and all accrued but unpaid interest thereon shall be due and payable on the Maturity Date. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of the Credit Agreement; provided, however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this Note at any time shall be the total amount advanced hereunder by Lender less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by Lender or otherwise noted in Lender's records, which notations shall be, absent manifest error, conclusive evidence of the amounts owing hereunder from time to time.

2.2 Application. Except as expressly provided herein to the contrary, all payments on this Note shall be applied in the following order of priority: (a) the payment or reimbursement of any expenses, costs or obligations (other than the outstanding principal balance hereof and interest hereon) for which either Borrower shall be obligated or Lender shall be entitled pursuant to the provisions of this Note or the other Loan Documents; (b) the payment of accrued but unpaid interest hereon; and (c) the payment of all or any portion of the principal balance hereof then outstanding hereunder, in the direct order of maturity. If an Event of Default exists under this Note or under any of the other Loan Documents, then Lender may, at the sole option of Lender, apply any such payments, at any time and from time to time, to any of the items specified in *clauses (a), (b) or (c)* above without regard to the order of priority otherwise specified in this *Section 2.2* and any application to the outstanding principal balance hereof may be made in either direct or inverse order of maturity.

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2.3 Payments. All payments under this Note made to Lender shall be made in immediately available funds at 745 E. Mulberry, Suite 300, San Antonio Texas 78212 (or at such other place as Lender, in Lender's sole discretion, may have established by delivery of written notice thereof to Borrower from time to time), without offset, in lawful money of the United States of America, which shall at the time of payment be legal tender in payment of all debts and dues, public and private. Payments by check or draft shall not constitute payment in immediately available funds until the required amount is actually received by Lender in full. Payments in immediately available funds received by Lender in the place designated for payment on a Business Day prior to 11:00 a.m. (Dallas, Texas time) at such place of payment shall be credited prior to the close of business on the Business Day received, while payments received by Lender on a day other than a Business Day or after 11:00 a.m. (Dallas, Texas time) on a Business Day shall not be credited until the next succeeding Business

Day. If any payment of principal or interest on this Note shall become due and payable on a day other than a Business Day, then such payment shall be made on the next succeeding Business Day. Any such extension of time for payment shall be included in computing interest which has accrued and shall be payable in connection with such payment.

2.4 Rate Selection, Etc. Borrower may select, subject to the terms and conditions set forth below, a Note Rate based upon either LIBOR or the Base Rate for the entire principal amount of this Note then outstanding or any Portion thereof. No more than three (3) LIBOR Interest Periods may be outstanding at any time, and each Portion bearing interest based on LIBOR shall be at least \$100,000. Borrower may designate the Portion to bear interest based upon LIBOR by giving Lender written notice of its selection before 11:00 a.m. (Dallas, Texas time) on the LIBOR Determination Date, which selection shall be irrevocable, for each LIBOR Interest Period. If an Event of Default has occurred and is continuing, the option to select LIBOR as a basis for the Note Rate shall be terminated. No LIBOR Interest Period may extend beyond the Maturity Date. Any Portion for which LIBOR Interest Period is not selected shall bear interest at a Note Rate based upon the Base Rate. The determination by Lender of the Note Rate shall, in the absence of manifest error, be conclusive and binding in all respects. Notwithstanding anything contained herein to the contrary, if (a) at any time, Lender determines (which determination shall be conclusive in the absence of manifest error) that any applicable law or regulation or any Change therein or the interpretation or application thereof or compliance therewith by Lender (i) prohibits, restricts or makes impossible the charging of interest based on LIBOR or (ii) shall make it unlawful for Lender to make or maintain the indebtedness evidenced by this Note in eurodollars, or (b) at the time of or prior to the determination of the Note Rate, Lender determines (which determination shall be conclusive in the absence of manifest error) that by reason of circumstances affecting the London interbank market generally, (i) deposits in United States Dollars in the relevant amounts and of the relevant maturity are not available to Lender in the London interbank market, (ii) the Note Rate does not adequately and fairly reflect the cost to Lender of making or maintaining the loan, due to changes in administrative costs, fees, tariffs and taxes and other matters outside of Lender's reasonable control, or (iii) adequate and fair means do not or will not exist for determining the Note Rate as set forth in this Note, then Lender shall give Borrower prompt notice thereof, and this Note shall bear interest, and continue to bear interest until Lender determines that the applicable circumstance described in the foregoing *clauses (a)(i) or (ii) or (b)(i), (ii) or (iii)* no longer pertains, at the Base Rate plus Applicable Margin.

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2.5 Computation Period. Interest on the indebtedness evidenced by this Note shall be computed on the basis of a three hundred sixty (360) day year and shall accrue on the actual number of days elapsed for any whole or partial month in which interest is being calculated. In computing the number of days during which interest accrues, the day on which funds are initially advanced shall be included regardless of the time of day such advance is made, and the day on which funds are repaid shall be included unless repayment is credited prior to the close of business on the Business Day received as provided in *Section 2.3* hereof. Each determination by Lender of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

2.6 Prepayment. Borrower shall have the right to prepay, at any time and from time to time upon at least five (5) Business Days prior written notice to Lender, without fee, premium or penalty, all or any portion of the outstanding principal balance hereof; *provided, however,* that (a) such prepayment shall also include any and all accrued but unpaid interest on the amount of principal being so prepaid through and including the date of prepayment, plus any other sums which have become due to Lender under the other Loan Documents on or before the date of prepayment, but which have not been fully paid and (b) such prepayment shall also include any Funding Loss. Prepayments of principal shall be applied in inverse order of maturity.

2.7 Unconditional Payment. Borrower is and shall be obligated to pay all principal, interest and any and all other amounts which become payable under this Note or under any of the other Loan Documents absolutely and unconditionally and without any abatement, postponement, diminution or deduction whatsoever and without any reduction for counterclaim or setoff whatsoever. If at any time any payment received by Lender hereunder shall be deemed by a court of competent jurisdiction to have been a voidable preference or fraudulent conveyance under any Debtor Relief Law, then the obligation to make such payment shall survive any cancellation or satisfaction of this Note or return thereof to Borrower and shall not be discharged or satisfied with any prior payment thereof or cancellation of this Note, but shall remain a valid and binding obligation enforceable in accordance with the terms and provisions hereof, and such payment shall be immediately due and payable upon demand.

2.8 Partial or Incomplete Payments. Remittances in payment of any part of this Note other than in the required amount in immediately available funds at the place where this Note is payable shall not, regardless of any receipt or credit issued therefor, constitute payment until the required amount is actually received by Lender in full in accordance herewith and shall be made and accepted subject to the condition that any check or draft may be handled for collection in accordance with the practice of the collecting bank or banks. Acceptance by Lender of any payment in an amount less than the full amount then due shall be deemed an acceptance on account only, and the failure to pay the entire amount then due shall be and continue to be an Event of Default in the payment of this Note.

2.9 Default Interest Rate. For so long as any Event of Default exists under this Note or under any of the other Loan Documents, regardless of whether or not there has been an acceleration of the indebtedness evidenced by this Note, and at all times after the maturity of the indebtedness evidenced by this Note (whether by acceleration or otherwise), and in addition to all other rights and remedies of Lender hereunder, interest shall accrue on the outstanding principal balance hereof at the Default Interest Rate, and such accrued interest shall be immediately due and

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payable. Borrower acknowledges that it would be extremely difficult or impracticable to determine Lender's actual damages resulting from any late payment or Event of Default, and such late charges and accrued interest are reasonable estimates of those damages and do not constitute a penalty.

2.10 Late Charge. At the option of Lender, Borrower will pay Lender, on demand, (i) a "late charge" equal to \$2,500 (but not to exceed the Maximum Rate) when such installment is not paid within five (5) days following the date such installment is due and (ii) a processing fee in the amount of \$25.00 for each check

which is provided to Lender by Borrower in payment for an obligation owing to Lender under any Loan Document but is returned or dishonored for any reason, in order to cover the additional expenses involved in handling delinquent and returned or dishonored payments.

2.11 **Change.** If Lender determines that the amount of capital required or expected to be maintained by Lender or any entity controlling Lender, is increased as a result of a Change, then, within fifteen (15) days of demand by Lender, Borrower shall pay to Lender the amount necessary to compensate Lender for any shortfall in the rate of return on the portion of such increased capital that Lender determines is attributable to this Note or the principal amount outstanding hereunder (after taking into account Lender's policies as to capital adequacy).

3. EVENT OF DEFAULT AND REMEDIES

3.1 **Remedies.** Upon the occurrence of an Event of Default, Lender shall have the right to exercise any rights and remedies set forth in the Credit Agreement and the other Loan Documents.

3.2 **Remedies.** Upon the occurrence of an Event of Default, Lender shall have the immediate right, at the sole discretion of Lender and without notice, demand, presentment, notice of nonpayment or nonperformance, protest, notice of protest, notice of intent to accelerate, notice of acceleration, or any other notice or any other action (ALL OF WHICH BORROWER HEREBY EXPRESSLY WAIVES AND RELINQUISHES): (a) to declare the entire unpaid balance of the indebtedness evidenced by this Note (including, without limitation, the outstanding principal balance hereof, all sums advanced or accrued hereunder or under any other Loan Document, and all accrued but unpaid interest thereon) at once immediately due and payable (and upon such declaration, the same shall be at once immediately due and payable) and may be collected forthwith, whether or not there has been a prior demand for payment and regardless of the stipulated date of maturity; (b) to foreclose any Liens and security interests securing payment hereof or thereof (including, without limitation, any Liens and security interests); and (c) to exercise any of Lender's other rights, powers, recourses and remedies under the Loan Documents or at law or in equity, and the same (i) shall be cumulative and concurrent, (ii) may be pursued separately, singly, successively, or concurrently against Borrower or others obligated for the repayment of this Note or any part hereof, or against any one or more of them, at the sole discretion of Lender, (iii) may be exercised as often as occasion therefor shall arise, it being agreed by Borrower that the exercise, discontinuance of the exercise of or failure to exercise any of the same shall in no event be construed as a waiver or release thereof or of any other right, remedy, or recourse, and (iv) are intended to be, and shall be, nonexclusive. All rights and remedies of Lender hereunder and under the other Loan Documents shall extend to any period after the initiation of

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foreclosure proceedings, judicial or otherwise, with respect to the Mortgaged Property or any portion thereof.

3.3 WAIVERS. EXCEPT AS SPECIFICALLY PROVIDED IN THE LOAN DOCUMENTS TO THE CONTRARY, BORROWER AND ANY ENDORSERS OR GUARANTORS HEREOF SEVERALLY WAIVE AND RELINQUISH PRESENTMENT FOR PAYMENT, DEMAND, NOTICE OF NONPAYMENT OR NONPERFORMANCE, PROTEST, NOTICE OF PROTEST, NOTICE OF INTENT TO ACCELERATE, NOTICE OF ACCELERATION OR ANY OTHER NOTICES OR ANY OTHER ACTION. BORROWER AND ANY ENDORSERS OR GUARANTORS HEREOF SEVERALLY WAIVE AND RELINQUISH, TO THE FULLEST EXTENT PERMITTED BY LAW, ALL RIGHTS TO THE BENEFITS OF ANY MORATORIUM, REINSTATEMENT, MARSHALING, FORBEARANCE, VALUATION, STAY, EXTENSION, REDEMPTION, APPRAISEMENT,

EXEMPTION AND HOMESTEAD NOW OR HEREAFTER PROVIDED BY THE CONSTITUTION AND LAWS OF THE UNITED STATES OF AMERICA AND OF EACH STATE THEREOF, BOTH AS TO ITSELF AND IN AND TO ALL OF ITS PROPERTY, REAL AND PERSONAL, AGAINST THE ENFORCEMENT AND COLLECTION OF THE OBLIGATIONS EVIDENCED BY THIS NOTE OR BY THE OTHER LOAN DOCUMENTS.

4. GENERAL PROVISIONS

4.1 No Waiver; Amendment. No failure to accelerate the indebtedness evidenced by this Note by reason of an Event of Default hereunder, acceptance of a partial or past due payment, or indulgences granted from time to time shall be construed (a) as a novation of this Note or as a reinstatement of the indebtedness evidenced by this Note or as a waiver of such right of acceleration or of the right of Lender thereafter to insist upon strict compliance with the terms of this Note, or (b) to prevent the exercise of such right of acceleration or any other right granted under this Note, under any of the other Loan Documents or by any applicable laws. Borrower hereby expressly waives and relinquishes the benefit of any statute or rule of law or equity now provided, or which may hereafter be provided, which would produce a result contrary to or in conflict with the foregoing. The failure to exercise any remedy available to Lender shall not be deemed to be a waiver of any rights or remedies of Lender under this Note or under any of the other Loan Documents, or at law or in equity. No extension of the time for the payment of this Note or any installment due hereunder, made by agreement with any person now or hereafter liable for the payment of this Note, shall operate to release, discharge, modify, change or affect the original liability of Borrower under this Note, either in whole or in part, unless Lender specifically, unequivocally and expressly agrees otherwise in writing.

4.2 Interest Provisions.

(a) **Savings Clause.** It is expressly stipulated and agreed to be the intent of Borrower and Lender at all times to comply strictly with the applicable Texas law governing the Maximum Rate or amount of interest payable on the indebtedness evidenced by this Note and the Related Indebtedness (or applicable United States federal law to the extent that it permits Lender to contract for, charge, take, reserve or receive a greater amount of interest than under Texas law). If the applicable law is ever judicially interpreted so as to render usurious any amount (i) contracted for, charged, taken, reserved or received

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pursuant to this Note, any of the other Loan Documents or any other communication or writing by or between Borrower and Lender related to the transaction or transactions that are the subject matter of the Loan Documents, (ii) contracted for, charged, taken, reserved or received by reason of Lender's exercise of the option to accelerate the maturity of this Note and/or the Related Indebtedness, or (iii) Borrower will have paid or Lender will have received by reason of any voluntary prepayment by Borrower of this Note and/or the Related Indebtedness, then it is Borrower's and Lender's express intent that all amounts charged in excess of the Maximum Rate shall be automatically canceled, ab initio, and all amounts in excess of the Maximum Rate theretofore collected by Lender shall be credited on the principal balance of this Note and/or the Related Indebtedness (or, if this Note and all Related Indebtedness have been or would thereby be paid in full, refunded to Borrower), and the provisions of this Note and the other Loan Documents shall immediately be deemed reformed and the amounts thereafter collectible hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder and thereunder, *provided however*, that if this Note has been

paid in full before the end of the stated term of this Note, then Borrower and Lender agree that Lender shall, with reasonable promptness after Lender discovers or is advised by Borrower that interest was received in an amount in excess of the Maximum Rate, either refund such excess interest to Borrower and/or credit such excess interest against this Note and/or any Related Indebtedness then owing by Borrower to Lender. Borrower hereby agrees that as a condition precedent to any claim seeking usury penalties against Lender, Borrower will provide written notice to Lender, advising Lender in reasonable detail of the nature and amount of the violation, and Lender shall have sixty (60) days after receipt of such notice in which to correct such usury violation, if any, by either refunding such excess interest to Borrower or crediting such excess interest against this Note and/or the Related Indebtedness then owing by Borrower to Lender. All sums contracted for, charged, taken, reserved or received by Lender for the use, forbearance or detention of any debt evidenced by this Note and/or the Related Indebtedness shall, to the extent permitted by applicable law, be amortized or spread, using the actuarial method, throughout the stated term of this Note and/or the Related Indebtedness (including any and all renewal and extension periods) until payment in full so that the rate or amount of interest on account of this Note and/or the Related Indebtedness does not exceed the Maximum Rate from time to time in effect and applicable to this Note and/or the Related Indebtedness for so long as debt is outstanding. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

(b) **Ceiling Election.** To the extent that Lender is relying on Chapter 303 of the Texas Finance Code to determine the Maximum Rate payable on the Note and/or any other portion of the Obligations, Lender will utilize the weekly ceiling from time to time in effect as provided in such Chapter 303, as amended. To the extent United States federal law permits Lender to contract for, charge, take, receive or reserve a greater amount of interest than under Texas law, Lender will rely on United States federal law instead of such Chapter 303 for the purpose of determining the Maximum Rate. Additionally, to the extent permitted by applicable law now or hereafter in effect, Lender may, at its option and from

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time to time, utilize any other method of establishing the Maximum Rate under such Chapter 303 or under other applicable law by giving notice, if required, to Borrower as provided by applicable law now or hereafter in effect.

4.3 WAIVER OF JURY TRIAL. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER HEREBY IRREVOCABLY AND EXPRESSLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT, OR OTHERWISE) ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY OR THE ACTIONS OF LENDER IN THE NEGOTIATION, ADMINISTRATION, OR ENFORCEMENT THEREOF. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 4.3.

4.4 GOVERNING LAW; VENUE; SERVICE OF PROCESS. THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS; PROVIDED THAT LENDER SHALL RETAIN ALL RIGHTS UNDER FEDERAL LAW. THIS AGREEMENT HAS BEEN ENTERED INTO IN BEXAR COUNTY, TEXAS, AND IS PERFORMABLE FOR ALL PURPOSES IN BEXAR COUNTY, TEXAS. THE PARTIES HEREBY AGREE THAT ANY LAWSUIT, ACTION, OR PROCEEDING THAT IS BROUGHT (WHETHER IN CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS, THE TRANSACTIONS CONTEMPLATED THEREBY, OR THE ACTIONS OF THE LENDER IN THE NEGOTIATION, ADMINISTRATION OR ENFORCEMENT OF ANY OF THE LOAN DOCUMENTS SHALL BE BROUGHT IN A STATE OR FEDERAL COURT OF COMPETENT JURISDICTION LOCATED IN BEXAR COUNTY, TEXAS. BORROWER HEREBY IRREVOCABLY AND UNCONDITIONALLY (A) SUBMITS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS, (B) WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH LAWSUIT, ACTION, OR PROCEEDING BROUGHT IN ANY SUCH COURT, AND (C) FURTHER WAIVES ANY CLAIM THAT IT MAY NOW OR HEREAFTER HAVE THAT ANY SUCH COURT IS AN INCONVENIENT FORUM. EACH OF THE PARTIES HERETO AGREE THAT SERVICE OF PROCESS UPON IT MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED AT THE ADDRESS FOR NOTICES REFERENCED IN SECTION 11.11 OF THE CREDIT AGREEMENT.

4.5 Relationship of the Parties. Notwithstanding any prior business or personal relationship between Borrower and Lender, or any officer, director or employee of Lender, that may exist or have existed, the relationship between Borrower and Lender is solely that of debtor and creditor, Lender has no fiduciary or other special relationship with Borrower, Borrower and Lender are not partners or joint venturers, and no term or condition of any of the Loan Documents

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shall be construed so as to deem the relationship between Borrower and Lender to be other than that of debtor and creditor.

4.6 Successors and Assigns. The terms and provisions hereof shall be binding upon and inure to the benefit of Borrower and Lender and their respective heirs, executors, legal representatives, successors, successors-in-title and assigns, whether by voluntary action of the parties, by operation of law or otherwise, and all other persons claiming by, through or under them. The terms "Borrower" and "Lender" as used hereunder shall be deemed to include their respective heirs, executors, legal representatives, successors, successors-in-title and assigns, whether by voluntary action of the parties, by operation of law or otherwise, and all other persons claiming by, through or under them.

4.7 Time is of the Essence. Time is of the essence with respect to all provisions of this Note and the other Loan Documents.

4.8 Headings. The Section and Subsection titles hereof are inserted for convenience of reference only and shall in no way alter, modify, define, limit, amplify or be used in construing the text, scope or intent of such Sections or Subsections or any provisions hereof.

4.9 Controlling Agreement. In the event of any conflict between the provisions of

this Note and the Credit Agreement, it is the intent of the parties hereto that the provisions of the Credit Agreement shall control. In the event of any conflict between the provisions of this Note and any of the other Loan Documents (other than the Credit Agreement), it is the intent of the parties hereto that the provisions of this Note shall control. The parties hereto acknowledge that they were represented by competent counsel in connection with the negotiation, drafting and execution of this Note and the other Loan Documents and that this Note and the other Loan Documents shall not be subject to the principle of construing their meaning against the party which drafted same.

4.10 Notices. Whenever any notice is required or permitted to be given under the terms of this Note, the same shall be given in accordance with *Section 11.11* of the Credit Agreement.

4.11 Severability. If any provision of this Note or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, then neither the remainder of this Note nor the application of such provision to other persons or circumstances nor the other instruments referred to herein shall be affected thereby, but rather shall be enforced to the greatest extent permitted by applicable law.

4.12 Right of Setoff. In addition to all Liens upon and rights of setoff against the money, securities, or other property of Borrower given to Lender that may exist under applicable law, Lender shall have and Borrower hereby grants to Lender a Lien upon and a right of setoff against all money, securities, and other property of Borrower, now or hereafter in possession of or on deposit with Lender, whether held in a general or special account or deposit, for safe-keeping or otherwise, and every such Lien and right of setoff may be exercised without demand upon or notice to Borrower. No Lien or right of setoff shall be deemed to have been waived by any act or conduct on the part of Lender, or by any neglect to exercise such right of setoff or to enforce such Lien, or by any delay in so doing, and every right of setoff and Lien shall continue in full force and effect

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until such right of setoff or Lien is specifically waived or released by an instrument in writing executed by Lender.

4.13 Costs of Collection. If any holder of this Note retains an attorney-at-law in connection with any Event of Default or at maturity or to collect, enforce, or defend this Note or any part hereof, or any other Loan Document in any lawsuit or in any probate, reorganization, bankruptcy or other proceeding, or if Borrower sues any holder in connection with this Note or any other Loan Document and does not prevail, then Borrower agrees to pay to each such holder, in addition to the principal balance hereof and all interest hereon, all costs and expenses of collection or incurred by such holder or in any such suit or proceeding, including, but not limited to, reasonable attorneys' fees.

4.14 Statement of Unpaid Balance. At any time and from time to time, Borrower will furnish promptly, upon the request of Lender, a written statement or affidavit, in form satisfactory to Lender, stating the unpaid balance of the indebtedness evidenced by this Note and the Related Indebtedness and that there are no offsets or defenses against full payment of the indebtedness evidenced by this Note and the Related Indebtedness and the terms hereof, or if there are any such offsets or defenses, specifying them.

4.15 FINAL AGREEMENT. THIS NOTE AND THE OTHER. LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT

ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

4.16 Renewal, Extension and Increase. This Note is executed in renewal and extension of, and not in novation or discharge of, that certain promissory note dated January 9, 2018, executed by Borrower and payable to the order of Lender in the original principal amount of \$22,000,000.00, which promissory note was executed in renewal, extension and increase of, and not in novation or discharge of, that certain promissory note dated April 17, 2017, executed by Borrower and payable to the order of Lender in the original principal amount of \$20,000,000.00.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK SIGNATURE PAGE FOLLOWS]

REVOLVING NOTE PAGE 12 OF 13

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note as of the day and year first written above.

BORROWER:

HARTE HANKS, INC.

By:

Name:

Title:

ANNEX B
NOTE PURCHASE AGREEMENT

Annex-i

NOTE PURCHASE AGREEMENT

THIS NOTE PURCHASE AGREEMENT (the "Agreement") is made and dated as of the 7th day of May, 2019, by and between TEXAS CAPITAL BANK, NATIONAL ASSOCIATION, a national banking association ("Seller") and HHS Guaranty, LLC, a Texas limited liability company ("Purchaser").

RECITALS

A. Seller, as lender, and Harte Hanks, Inc., a Delaware corporation ("Borrower"), as borrower, have entered into that certain Credit Agreement dated as of April 17, 2017, as amended by that certain First Amendment to Credit Agreement (the "First Amendment") dated as of January 9, 2018 and that certain Second Amendment to Credit Agreement (the "Second Amendment") dated as of even date herewith (as amended, and as the same may be further amended, supplemented or modified from time to time, the "Credit Agreement").

B. Purchaser and Seller entered into that certain Note Purchase Agreement dated as of April 17, 2017 (the "Original Note Purchase Agreement"), pursuant to which Purchaser was obligated to purchase the promissory note described therein (the "Original Note") from Seller upon the terms and conditions described in the Original Note Purchase Agreement.

C. Pursuant to the First Amendment, Borrower executed that certain promissory note dated January 9, 2018, payable to the order of Seller in the original principal amount of \$22,000,000.00 (the "First Renewal Note"), which First Renewal Note was executed in renewal, extension and increase of the Original Note.

D. Pursuant to the First Amendment, Purchaser and Seller entered into that certain Note Purchase Agreement dated as of January 9, 2018 (the "First Amended and Restated Note Purchase Agreement") which amended and restated the Original Note Purchase Agreement, pursuant to which Purchaser was obligated to purchase the First Renewal Note from Seller upon the terms and conditions described in the First Amended and Restated Note Purchase Agreement.

E. Pursuant to the Second Amendment, Borrower executed that certain promissory note dated of even date herewith, payable to the order of Seller in the original principal amount of \$22,000,000.00 (the "Second Renewal Note"), which Second Renewal Note was executed in renewal and extension of the First Renewal Note.

F. Purchaser and Seller desire to amend and restate, in its entirety, the First Amended and Restated Note Purchase Agreement by entering into this Agreement setting forth the terms and conditions governing the purchase and sale of the Note.

NOW, THEREFORE, in consideration of the above Recitals and the mutual covenants contained herein, the parties hereto hereby amend and restate the Original Note Purchase Agreement and agree as follows:

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ARTICLE I

DEFINITIONS

In this Agreement, the following terms have the following meanings:

1.1 "Pledge Agreement" shall mean the Pledge Agreement (as defined in the Credit Agreement).

1.2 "Loan Package" shall mean the Credit Agreement, the Second Renewal Note, the Pledge Agreement and those of the Related Agreements which are to be sold and assigned to Purchaser from time to time hereunder.

1.3 "Obligor" means the Borrower.

1.4 "Related Agreements" shall mean those agreements executed and/or delivered in connection with the Credit Agreement.

ARTICLE II

PURCHASE AND SALE OF LOAN PACKAGE

2.1 Purchase Date. On or before the earliest of (a) three (3) Business Days (hereinafter defined) after notice from Seller to Purchaser of the occurrence of an Event of Default (as defined in the Credit Agreement) arising under Section 10.1(a), Section 10.1(e) or Section 10.1(f), or (b) five (5) Business Days after notice from Seller to Purchaser that the Borrowing Base (as defined in the Credit Agreement) is less than the Commitment, or (c) five (5) Business Days after notice from Purchaser to Seller of the occurrence of a Credit Support Event (as defined in that certain Amended and Restated Fee, Reimbursement and Indemnity Agreement, dated as of January 9, 2018, between Borrower and Purchaser), in each case which remains uncured (the "Outside Purchase Date"), Seller will sell to Purchaser, and Purchaser will purchase and take from Seller, all right, title and interest of Seller in the Loan Package for a purchase price (the "Purchase Price") equal to (i) the sum of outstanding principal balance of the Note, plus (ii) interest accrued but unpaid on the Note, plus (iii) Seller's reasonable costs and expenses in connection with such Event of Default and the sale of the Note, including, without limitation, reasonable attorneys' fees. In addition, if there are any outstanding Letters of Credit (as defined in the Credit Agreement), Purchaser shall deposit with Seller cash in an amount equal to one hundred ten percent (110%) of the undrawn face amount of all outstanding Letters of Credit, to be held by Seller in escrow (the "Escrowed Funds") upon terms reasonably satisfactory to Seller until such time no Letters of Credit remain outstanding and Seller has been repaid for all amounts drawn on such Letters of Credit. Seller shall from time to time use such Escrowed Funds to satisfy any drawings on such Letters of Credit funded by Seller. After all Letters of Credit have expired and Seller has been reimbursed for all draws funded by Seller on such Letters of Credit, Seller shall return all remaining Escrow Funds to Purchaser. As used herein, "Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in the State of Texas are authorized to be closed or in fact closed and, in addition to the above requirements, the days that the New York Stock Exchange is closed for normal trading.

2.2 Seller's Deliveries. Upon receipt by the Seller of each of the documents, instruments and agreements referred to in Section 2.3 below, Seller shall deliver to Purchaser each of the following:

(a) The original Second Renewal Note, duly endorsed as follows:

"Pay to the order of , without recourse or warranty of any kind except as expressly set forth in that certain Note Purchase Agreement dated as of May 7, 2019 between HHS Guaranty, LLC and Texas Capital Bank, National Association.

TEXAS CAPITAL BANK, NATIONAL ASSOCIATION

By:

Name:

Title:

(a) The original Pledge Agreement and Related Agreements with respect to the Second Renewal Note (or a copy thereof certified by Seller as a true copy thereof); and
(b) A UCC-3 financing statement, duly executed by Seller, assigning to Purchaser the rights of Seller as "Secured Party" under the UCC-1 financing statements reflecting Borrower as debtor included in the Related Agreements.

2.3 Conditions Precedent to Closing. As conditions precedent:

The obligation of Purchaser to purchase the Loan Package from Seller hereunder on or before the Outside Purchase Date shall only be conditioned upon the delivery to Purchaser the documents from Seller described in Section 2.2 above; provided that Seller shall not be obligated to deliver such documents to Purchaser unless and until Purchaser has delivered to Seller the Purchase Price in immediately available funds on or before the Outside Purchase date. In the event that Purchaser has not delivered such Purchase Price to Seller on or before the Outside Purchase Date, Seller shall be entitled to liquidate all collateral pledged to Seller under the Pledge Agreement of Purchaser in favor of Seller dated as of even date herewith without any further notice to Purchaser or any other Person.

2.4 Closing: Effective Date. The sale contemplated by this Agreement shall be effective upon receipt by Seller, in immediately available funds, of the entire Purchase Price and delivery of possession of the Loan Package to Purchaser, which shall be deemed to have occurred for all purposes at the opening of business of Seller on the date all conditions precedent set forth above have been met or waived in writing (the "Effective Date"). All risk of loss of diminution of value of any collateral pledged by Borrower to Seller shall be on Seller until the Effective Date and on Purchaser from and after the Effective Date.

2.5 Non-Recourse Sale. It is agreed by the parties hereto that the purchase and sale of the Loan Package hereunder is as is without recourse to, and without representation or warranty,

express (except as expressly set forth in Article III below) or implied by, Seller. Purchaser agrees that the purchase of the Loan Package by Purchaser, and the sale of the Loan Package by Seller, shall be AS IS WITH ALL FAULTS WITHOUT ANY REPRESENTATIONS OR WARRANTIES OF WHATSOEVER NATURE, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, IT BEING THE INTENTION OF SELLER AND PURCHASER TO EXPRESSLY NEGATE AND EXCLUDE ALL

WARRANTIES WHATSOEVER, INCLUDING WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR ANY PARTICULAR PURPOSE, WARRANTIES CREATED BY AFFIRMATION OF FACT OR PROMISE OR BY ANY DESCRIPTION OF THE LOAN PACKAGE OR BY ANY SAMPLE OR MODEL AND ANY OTHER WARRANTIES CONTAINED IN OR CREATED BY THE TEXAS UNIFORM COMMERCIAL CODE OR ANY OTHER LAW, except that the foregoing shall not be construed to negate the warranty of title hereinafter expressly set forth in Article III below.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLER

To induce Purchaser to enter into this Agreement, Seller represents and warrants to Purchaser that:

3.1 Legal Status. Seller holds a valid Certificate of Authority from the Comptroller of the Currency of the United States of America to do business as a national banking association under the laws of the United States.

3.2 Authority and Enforceability. The execution, delivery and performance of this Agreement by Seller have been duly authorized by all necessary corporate action on the part of Seller.

3.3 Ownership. Seller owns the Note free and clear of all liens, security interests and encumbrances in favor of any third party.

3.4 Exclusive Representations and Warranties. The representations and warranties set forth in this Article III are the sole and exclusive representations and warranties made by Seller, its representatives, agents, officers, directors and other employees, with respect to the Loan Package, the sale thereof to Purchaser hereunder or otherwise. Without limiting the generality of the foregoing, it is expressly acknowledged and agreed by Purchaser that no covenant, agreement, representation or warranty made by Seller or any such other person, herein or otherwise, shall be construed as a warranty, representation, guaranty or other agreement or acknowledgement as to, nor does Seller or any such other person assume any responsibility for:

(a) The creditworthiness of the Obligor or the collectability of the Note by reason of the Obligor's ability to make payments with respect thereto; or

(b) The conformity of the Loan Package with laws and regulations binding upon Seller or Purchaser; or

(c) The genuineness, legality, validity or enforceability of the Note, the Pledge Agreement and/or any Related Agreement, whether by Seller or otherwise.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PURCHASER

To induce Seller to enter into this Agreement, Purchaser represents and warrants to Seller that:

4.1 **Legal Status.** Purchaser is limited liability company which is duly organized, validly existing and in good standing under the laws of the State of Texas.

4.2 **Capacity.** Purchaser has full power, authority and legal right to execute and deliver, and to perform and observe the provisions of this Agreement and to carry out the transactions contemplated hereby, including to purchase the Loan Package from Seller.

4.3 **Authority and Enforceability.** The execution, delivery and performance of this Agreement by Purchaser have been duly authorized by all necessary action, including without limitation, the members who have organized and contributed capital to Purchaser.

4.4 **No Reliance.** (a) Purchaser has, independently and without reliance upon Seller or any of Seller's officers, directors, employees, agents or affiliates, and based upon such documents and information as Purchaser has deemed appropriate, made its own appraisal of and investigation into the Obligor, and the Loan Package and made its decision to enter into this Agreement and to purchase the Loan Package pursuant hereto.

(b) Specifically, and not in limitation of the foregoing provisions of this Section 4.4 Purchaser acknowledges that it has reviewed the Loan Package, and specifically the representations and warranties and the affirmative and negative covenants sections in the Credit Agreement, and expressly consent to those "non-customary" revisions requested by Borrower and made by Lender.

ARTICLE V

INDEMNIFICATION

5.1 **Indemnification.** Purchaser hereby agrees to indemnify, defend and hold harmless Seller from and against any and all liabilities, claims, demands, losses, damages, costs and expenses (including reasonable attorneys' fees), actions or causes of action ("Indemnified Matters") assessed against or imposed upon Seller by any person or entity, including Borrower, arising out of or related to:

(a) the execution, delivery and/or performance of this Agreement by Seller and/or the consummation of the transaction contemplated hereby, including any contention, whether well-founded, baseless or otherwise, that there has been a violation of or failure to comply with any existing law or regulation or any duty, contractual or otherwise, of Seller to any person or entity, or

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(a) any act or failure of Seller or any other person or entity, or
(b) any action or inaction by Purchaser following the Effective Date as successor in interest to Seller under the Loan Package;

provided, however, that Purchaser shall have no obligation under this Section 5.1 with respect to any Indemnified Matter directly resulting from the gross negligence or willful misconduct of Seller.

ARTICLE VI

MISCELLANEOUS

6.1 Survival. The representations and warranties, covenants and agreements of Seller and Purchaser hereunder shall survive the Effective Date.

6.2 Waiver. No waiver of any term, provision or condition of this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of any such term, provision or condition, or of any other term, provision or condition of this Agreement.

6.3 Interpretation. Section, paragraph or other headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The words "include" and "including" shall be interpreted as if followed by the words "without limitation."

6.4 Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with regard to the subject matter hereof, and there are no prior agreements, understandings, restrictions, warranties or representations between the parties with regard thereto.

6.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

6.6 Confidentiality. Each of the parties hereto and their respective attorneys agrees to keep the terms of this Agreement confidential, and not to disclose the same to any other parties except to the extent necessary to implement the terms of this Agreement or as may be required by state or federal law, or by any other rule or other regulation to which the parties are subject, or as may otherwise be agreed to by both parties in writing.

6.7 Assignment. This Agreement shall not be assignable, by operation of law or otherwise, by Purchaser (or its successors or assigns) to any person or entity without the prior written consent of Seller. Any purported assignment in violation of this Section shall be void and of no effect as against Seller. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of Seller, Purchaser and their respective successors and assigns.

6.8 Amendment and Waiver. Neither this Agreement nor any provision hereof may be changed, waived, discharged or terminated orally, except by an instrument in writing signed

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by the party against whom enforcement of the change, waiver, discharge or termination is sought.

6.9 Counterparts. This Agreement may be executed in counterparts and such counterparts shall, when taken together, constitute one and the same agreement.

6.10 WAIVER OF TRIAL BY JURY. SELLER AND PURCHASER HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN SELLER AND PURCHASER ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS OR ANY

RELATIONSHIP BETWEEN SELLER AND PURCHASER. THIS PROVISION IS A MATERIAL INDUCEMENT TO PURCHASER TO PROVIDE THE FINANCING EVIDENCED BY THIS AGREEMENT AND THE LOAN PACKAGE.

6.11 Further Assurances. Following the Effective Date, each of Seller and Purchaser shall cooperate with the other and shall take such actions as may be reasonably requested (and which actions are consistent with the provisions of this Agreement) to obtain for the requesting party the benefit of the transaction contemplated hereby; provided, however, that the requesting party shall bear all costs and expenses associated with the requested action and shall defend, indemnify and hold harmless the party of whom such action is requested against any claims assessed against or incurred by such party in complying with such request (other than claims directly resulting from such party's gross negligence or willful misconduct).

6.12 Amendment and Restatement. This Agreement represents and amendment and restatement in its entirety of the First Amended and Restated Note Purchase Agreement. This Agreement shall not in any manner constitute or be construed as a novation, discharge, forgiveness, extinguishment or release of any obligation for amounts due under the First Amended and Restated Note Purchase Agreement, which obligations are amended and restated by this Agreement and shall continue in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

SELLER:

TEXAS CAPITAL BANK, NATIONAL ASSOCIATION

By:

**Annalese Smolik
Senior Vice President**

PURCHASER:

IIHS GUARANTY, LLC

By:

**David L. Copeland
Manager and President**

SEPARATION AND GENERAL RELEASE AGREEMENT

This SEPARATION AND GENERAL RELEASE AGREEMENT (this "Agreement"), dated as of May 8, 2019, sets forth the agreement by and between Timothy "Bant" Breen ("Executive") and Harte-Hanks, Inc., a Delaware corporation (the "Company") (each, a "party" and together, the "parties") concerning the parties' mutual understanding regarding the cessation of Executive's employment with the Company, to be effective on the "Separation Date" (as defined in Section 1).

1. Transition Period.

(a) Executive's employment with the Company will cease as of the date on which the Company files its next quarterly report on Form 10-Q (or such other date mutually agreed between the parties, the "Separation Date"). Effective as of the Separation Date, Executive's at-will employment will cease and Executive will be deemed to have resigned from all positions, including all board positions, with each of the Company and its subsidiaries and affiliates (collectively, the "Company Group"). The Company and Executive will cooperate and make all efforts to effect and appropriately document such resignations as promptly as possible following the Separation Date.

(b) The period between May 10, 2019, and the Separation Date will be a "Transition Period", during which Executive will continue to be a fulltime employee, providing consulting, transition (and other) services as may be requested by board of directors of the Company (the "Board"), and will continue to receive his base salary of three hundred eighty thousand dollars (\$380,000) per annum (the "Base Salary"), minus the deductions required by law; provided that the Board may reassign Executive's duties as it deems appropriate in order to transition his role.

(c) Commencing on the Separation Date and continuing until November 10, 2019, Executive will provide consulting services to the Company, as requested by the Board (the "Consulting Period"). For the duration of the Consulting Period, Executive will receive a monthly fee of \$31,666.67 for each full month of service. Fees in respect of any partial months of service will be pro-rated based on the number of days that Executive serves as a consultant to the Company during the month that the Consulting Period ends. Executive will have no authority to bind any member of the Company Group, nor to act on their behalf, nor to make decisions for any member of the Company Group. The Company will give only broad direction to Executive; provided that such direction shall be clear and adequate relative to the services to be performed. Executive will determine the method, details and means of performing the services contemplated by this Agreement.

2. Independent Contractor. Executive acknowledges that, during the Consulting Period, Executive will at all times be and remain an independent contractor, and will not be considered the agent, partner, principal or employee of any member of the Company Group. Executive acknowledges and agrees that, during Consulting Period, Executive will not be treated as an employee of the Company or any of its subsidiaries or affiliates for purposes of federal, state or local income or other tax withholding, nor unless otherwise specifically provided by law, for purposes of the Federal Insurance Contributions Act, the Social Security Act, the Federal Unemployment Tax Act or any Workers' Compensation law of any state or country (or subdivision thereof), or for purposes of benefits provided to employees of the Company under any employee benefit plan, program, policy or arrangement (including, without limitation, vacation, holiday and sick leave benefits, insurance coverage and retirement benefits). Executive acknowledges and agrees that, as an independent contractor, he will be required, during the Consulting Period, to

pay any applicable taxes on the compensation paid to him, and to provide workers' compensation insurance and any other coverage required by law. Executive will be free to exercise his own judgment as to the manner and method of providing the consulting services to the Company, subject to applicable laws and requirements reasonably imposed by the Company.

3. General Release.

(a) In exchange for and in consideration of the fees to be paid during the Consulting Period and the Company's entry into this Agreement, as applicable, and as a condition of the receipt of any such amount, Executive, on behalf of Executive and Executive's heirs, executors, administrators, successors and assigns, irrevocably and unconditionally releases, waives and forever discharges the Released Parties (as defined below) from all claims, demands, actions, causes of action, charges, complaints, liabilities, obligations, promises, sums of money, agreements, representations, controversies, disputes, damages, suits, right, costs (including attorneys' fees), losses, debts and expenses of any nature whatsoever, whether known or unknown, fixed or contingent, which Executive now has or had ever had against the Released Parties arising out of, concerning or related to Executive's employment with the Company Group, from the beginning of time and up to and including the date Executive executes this Agreement in the first space provided below, and covering the period between such date and the date Executive reaffirms his signature in the second space provided below (as required by Section 7).

(b) This General Release includes, without limitation, (i) law or equity claims; (ii) express or implied contract claims (including any claims for any equity-based awards under any long-term incentive plans or programs or for any severance under the Offer Letter or the Company's Executive Severance Policy) or tort claims; (iii) claims arising under any federal, state or local laws of any jurisdiction that prohibit discrimination on the basis of age, sex, race, national origin, color, disability, religion, veteran, military status or sexual orientation or any other form of discrimination, harassment, hostile work environment or retaliation (including, without limitation, the Age Discrimination in Employment Act (ADEA) and the Older Workers Benefit Protection Act (OWBPA), the Americans with Disabilities Act of 1990, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Civil Rights Acts of 1866 and/or 1871, 42 U.S.C. Section 1981, the Family and Medical Leave Act, the Sarbanes-Oxley Act, the Employee Polygraph Protection Act, the Worker Adjustment and Retraining Notification Act, the Equal Pay Act of 1963, the Lilly Ledbetter Fair Pay Act, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Patient Protection and Affordable Care Act of 2010, the Texas Human Rights Act or the Texas Labor Code (including, without limitation, the Texas Payday Law, the Texas Anti-Retaliation Act, and Chapter 21 of the Texas Labor Code), or any other federal, state or local laws of any jurisdiction, if and to the extent applicable and as any of the foregoing may be amended from time to time); (iv) claims under any other federal, state, local, municipal or common law whistleblower protection, discrimination, wrongful discharge, anti-harassment or anti-retaliation statute or ordinance; (v) claims arising under the Employee Retirement Income Security Act of 1974 (ERISA); or (vi) any other statutory or common law claims related to Executive's employment with the Company Group and the termination thereof.

(c) The term "Released Parties" or "Released Party" as used herein shall mean and include: (i) the Company and the Company Group; (ii) the Company's former, current and future parents, subsidiaries, affiliates, shareholders and lenders; (iii) each predecessor, successor and affiliate of any entity listed in clauses (i) and (ii); (iv) each respective former, current and future parent company, subsidiary, affiliate, officer, director, agent, representative, employee, owner, shareholder, partner, joint venturer, attorney, employee benefit plan, employee benefit plan administrator, insurer, administrator and fiduciary of any of the entities or persons

listed in clauses (i) through (iii); and (iv) any other person acting by, through, under or in concert with any of the persons or entities listed herein.

(d) Nothing in this Agreement prohibits or is intended in any manner to prohibit, Executive from (i) reporting a possible violation of federal or other applicable law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission (the "SEC"), the U.S. Congress, and any governmental agency Inspector General, or (ii) making other disclosures that are protected under whistleblower provisions of federal law or regulation. This Agreement does not limit Executive's right to receive an award (including, without limitation, a monetary reward) for information provided to the SEC. Executive does not need the prior authorization of anyone at the Company to make any such reports or disclosures, and Executive is not required to notify the Company that Executive has made such reports or disclosures. Nothing in this Agreement or any other agreement or policy of the Company is intended to interfere with or restrain the immunity provided under 18 U.S.C. §1833(b). Executive cannot be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made (i) (a) in confidence to federal, state or local government officials, directly or indirectly, or to an attorney, and (b) for the purpose of reporting or investigating a suspected violation of law; (ii) in a complaint or other document filed in a lawsuit or other proceeding, if filed under seal; or (iii) in connection with a lawsuit alleging retaliation for reporting a suspected violation of law, is filed under seal and does not disclose the trade secret, except pursuant to a court order. This Section 3(d) is intended to comply with all applicable laws. If any laws are adopted, amended or repealed after the date hereof, this Section 3(d) shall be deemed to be amended to reflect the same.

(e) This General Release does, however, prevent Executive, to the maximum extent permitted by law, from obtaining any monetary or other personal relief for any of the claims Executive has released in this General Release. Pursuant to the OWBPA, Executive understands and acknowledges that by executing this General Release and releasing all claims against each and all of the Released Parties, Executive has waived any and all rights or claims that Executive has against any Released Party under the ADEA, which includes, but is not limited to, any claim that any Released Party discriminated against Executive on account of Executive's age. This General Release, however, shall not affect Executive's rights under the OWBPA to have a judicial determination of the validity of this General Release and does not purport to limit any right Executive may have to file a charge under the ADEA or any other civil rights statute or to participate in an investigation or proceeding conducted by the Equal Employment Opportunity Commission (EEOC) or other investigative agency. This General Release does, however, waive and release any right to recover damages under the ADEA or other civil rights statutes.

(f) Executive confirms that no claim, charge or complaint against any of the Released Parties has been brought by Executive before any federal, state or local court or administrative agency. Executive represents and warrants that Executive has no knowledge of any improper or illegal actions or omissions by any of the Released Parties. This expressly includes, but is not limited to, any and all conduct that potentially could give rise to claims under the Sarbanes-Oxley Act of 2002 (Public Law 107-204), if and to the extent applicable. Executive further represents that, as of the date of Executive's execution of this Agreement, Executive has not been the victim of any illegal or wrongful acts by any of the Released Parties, including, without limitation, discrimination, retaliation, harassment or any other wrongful act based on sex, age, or any other legally protected characteristic.

4. Additional Terms.

(a) In exchange for and in further consideration of the Company's entry into this Agreement, and as a condition of the consulting arrangement described herein, Executive agrees to abide by the terms and conditions of his (x) Non-Solicitation & Non-Compete Agreement with the Company, dated January 7, 2019 (the "Non-Compete Agreement") and (y) Confidentiality/Non-Disclosure Agreement with the Company, dated January 7, 2019 (together with the Non-Compete Agreement, the "Restrictive Covenant Agreements"), provided, however, that for the purposes of Section 2(b) of the Non-Compete Agreement, the post-termination restricted period will be 6 months. It is understood that Executive is currently, and has been throughout the period of his employment, the Chairman of QNARY, LLC and is and has been involved with the business of QNARY and its affiliates ("QNARY"). It is further understood and acknowledged that Executive will continue in such capacity and the continuation of such activities consistent with past practices will not be deemed a violation of this Agreement or the Non-Compete Agreement.

(b) Nondisparagement. In addition, subject to Section 4(c) hereof, the parties agree and acknowledge that:

- (i) the Executive will not make any statement (orally or in writing) or take any action which, in any way, disparages the Company and any of its affiliates and subsidiaries, and any director, officer, employee or legal counsel thereof; and
- (ii) the Company will not make any statement (orally or in writing) or take any action which, in any way, disparages Executive; provided that the foregoing will not preclude either party from making truthful statements as required by lawfully compelled testimony, and provided that the testifying party notifies the other party in advance of any such testimony and cooperates with the other party's reasonable efforts with respect to such testimony, to the fullest extent permitted by applicable law. In addition, the Company will instruct its Board of Directors not to make any statement (orally or in writing) that in any way disparages Executive and it will take appropriate remedial action in the event any director does so disparage Executive.

(c) Executive further agrees to the following:

- (i) Executive agrees that all Confidential Information, whether prepared by Executive or otherwise coming into Executive's possession, shall remain the exclusive property of the Company during Executive's employment with the Company. Executive further agrees that Executive shall not, except for the benefit of the Company pursuant to the exercise of Executive's duties or with the prior written consent of the Company, use or disclose to any third party any of the Confidential Information described herein, directly or indirectly, either during Executive's employment with the Company or at any time following the termination of Executive's employment with the Company.
- (ii) Executive agrees that all Confidential Information and other files, documents, materials, records, notebooks, customer lists, business proposals, contracts, agreements and other repositories containing information concerning the Company or the business of the Company (including all copies thereof) in Executive's possession, custody or control, whether prepared by Executive or others, shall remain with or be returned to the Company on the Separation Date.

(iii) This Section 4 is intended to comply with all applicable laws. If any laws are adopted, amended or repealed after the date hereof, this Section 4 shall be deemed to be amended to reflect the same.

5. Enforcement: Material Breach.

The parties acknowledge that each of his or its obligations and representations as set forth in this Agreement are reasonable and necessary for the protection of the other party and are a material inducement for the other party entering into this Agreement. Therefore, each party agrees to the following:

(a) Each party acknowledges that the other party may be irrevocably damaged if his or its obligations are not specifically enforced. Accordingly, each party agrees that, in addition to any other relief to which the complaining party may be entitled in the form of damages or recoupment of payments, the complaining party shall be entitled to seek and obtain injunctive relief (without the necessity of posting bond) from a court of competent jurisdiction for the purpose of restraining the other party from any actual or threatened breach of such obligations.

(b) In the event of any material breach by Executive of this Agreement (including Executive's failure to fulfill his duties as an executive officer), or in the event that any representation made by Executive under this Agreement is subsequently found to have been untrue when made, Executive agrees that (i) the Consulting Period will terminate effective immediately, and (ii) the Company shall have the right to recover and Executive shall have the obligation to repay to the Company the consulting fees that Executive received under this Agreement.

6. Miscellaneous.

(a) No Admission of Liability. The parties agree that neither this Agreement nor the furnishing of the consideration for the General Release as set forth in this Agreement shall be deemed or construed at any time for any purpose as an admission by any of the Released Parties of any liability or unlawful conduct of any kind. Executive further acknowledges and agrees that the consideration provided for herein is adequate consideration for Executive's obligations hereunder.

(b) Severability and Reformation. Each of the provisions of this Agreement constitutes an independent and separable covenant. Any portion of this Agreement that is determined by a court of competent jurisdiction to be overly broad in scope, duration or area of applicability or in conflict with any applicable statute or rule will be deemed, if possible, to be modified or altered so that it is not overly broad or in conflict or, if not possible, to be omitted from this Agreement. The invalidity of any portion of this Agreement will not affect the validity of the remaining sections of this Agreement.

(c) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion will not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(d) Successors and Assigns. This Agreement and any rights granted herein are personal to the parties hereto and will not be assigned or otherwise transferred by either party without the prior written consent of the other party, and any attempt at violative assignment or any other transfer, whether voluntary or by operation of law, will be void and of no force and effect,

except that this Agreement may be assigned by the Company to any successor in interest to the business of the Company. This Agreement shall be binding upon and shall inure to the benefit of the Company, its successors, affiliates and any person or other entity that succeeds to all or substantially all of the business, assets or property of the Company. This Agreement and all of Executive's rights hereunder shall inure to the benefit of and be enforceable by Executive's heirs and estate.

(e) No Conflict; Governing Law. Each party represents that the performance of all of the terms of this Agreement will not result in a breach of, or constitute a conflict with, any other agreement or obligation of that party. This Agreement is made in, governed by, and is to be construed and enforced in accordance with the internal laws of the State of Texas, without giving effect to conflict of law principles that would require application of the laws of another jurisdiction.

(f) Notices. All notices and other communications required or permitted hereunder must be in writing and will be deemed duly given if delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid or by overnight courier, and addressed to the intended recipient at the addresses maintained in the Company's records. Notices sent to the Company should be directed to:

Harte Hanks, Inc.
9601 McAllister Freeway, Suite 610
San Antonio, TX 78216
Attn: Chairman of the Board

Notices sent to the Executive should be directed to:

Bant Breen
112 E. 83rd St., Apt 2A
New York, NY 10028

(g) Counterparts. This Agreement may be executed and delivered in counterparts and may be executed and delivered by electronic mail, facsimile or other electronic signature, and each such counterpart will be deemed an original for all purposes.

(h) Captions and Headings; Construction. The captions and headings are for convenience of reference only and will not be used to construe the terms or meaning of any provisions of this Agreement. The word "including" (in its various forms) means "including without limitation".

(i) Entire Agreement. This Agreement, together with the surviving provisions of the Restrictive Covenant Agreements (as modified herein), sets forth the entire agreement between the parties with respect to the subject matter hereof. This Agreement supersedes any and all prior understandings and agreements between the parties, and neither party will have any obligation toward the other except as set forth herein. Without limiting the generality of the foregoing, Executive agrees that the execution of this Agreement and the payments made hereunder will constitute satisfaction in full of the Company's obligations to Executive under any and all plans, programs or arrangements of the Company under which Executive may be entitled to payments and/or benefits in connection with Executive's employment or the termination of Executive's employment, including, without limitation any equity under Executive's Restricted Stock Unit Award Agreement with the Company, executed in March 2019, other than vested

benefits under any applicable 401(k) plan or other retirement plan. This Agreement may not be superseded, amended, or modified except in writing signed by both parties.

7. Consideration Period.

By signing this Agreement in the spaces below, Executive is confirming his acceptance of the terms and conditions set forth herein and is acknowledging the following:

(a) The obligations as set out in this Agreement represent a complete waiver and release of all rights and claims that Executive has against the Released Parties. Accordingly, Executive understands his obligation to review this Agreement carefully before signing it.

(b) Executive understands that he can take up to 21 days from his receipt of this Agreement on May 7, 2019 (the "Consideration Period") to consider its meaning and effect and to determine whether or not to enter into it. In addition, Executive will be required to reaffirm his signature in the second space below. Before signing this Agreement in either space, Executive is advised to consult with an attorney. If Executive chooses to sign this Agreement in the first space before the end of the Consideration Period, Executive is doing so voluntarily.

(c) In addition, Executive may revoke his signature within seven days after signing this Agreement in either space. Any revocation of this Agreement must be in writing.

(d) Executive will forward the original of this Agreement once signed by Executive in the first space, as well as any notice of his desire to revoke his signature in either space, to:

Harte Hanks, Inc.
9601 McAllister Freeway, Suite 610
San Antonio, TX 78216
Attn: Chairman of the Board

(e) Executive understands that if he fails to sign this Agreement in both spaces as required, or Executive signs but exercises his right to revoke his signature in either space, the Consulting Period will terminate effective immediately.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

HARTE HANKS, Inc.

/s/ Alfred V. Tobia, Jr.

By: Alfred V. Tobia, Jr.
Title: Chairman of the Board
Date: May 8, 2019

Timothy "Bant" Breen

/s/ Timothy E. Breen

Date: May 8, 2019

DO NOT SIGN BELOW UNTIL YOUR SEPARATION DATE.

I hereby reaffirm my signature above:

Date: May 10th, 2019

Timothy "Bant" Breen

/s/ Timothy E. Breen

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

I, Andrew P. Harrison, Principal Executive Officer of Harte Hanks, Inc. (the "Company"), certify that:

1. I have reviewed this quarterly report on Form 10-Q 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.

November 12, 2019

Date

/s/ Andrew P. Harrison

Andrew P. Harrison
Principal Executive Officer

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

I, Mark A. Del Priore, Chief Financial Officer of Harte Hanks, Inc. (the "Company"), hereby certify that:

1. I have reviewed this quarterly report on Form 10-Q 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.

November 12, 2019

Date

/s/ Mark A. Del Priore

Mark A. Del Priore

Chief Financial Officer

(Principal Financial Officer)

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

I, Andrew P. Harrison, Principal Executive Officer of Harte Hanks, Inc. (the "Company"), hereby certify that the accompanying report on Form 10-Q for the quarter ended September 30, 2019 and filed with the Securities and Exchange Commission on the date hereof pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (the "Report") by the Company fully complies with the requirements of those sections.

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

November 12, 2019

Date

/s/ Andrew P. Harrison

Andrew P. Harrison
Principal 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, Mark A. Del Priore, Chief Financial Officer of Harte Hanks, Inc. (the "Company"), hereby certify that the accompanying report on Form 10-Q for the quarter ended September 30, 2019 and filed with the Securities and Exchange Commission on the date hereof pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (the "Report") by the Company fully complies with the requirements of those sections.

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

November 12, 2019

Date

/s/ Mark A. Del Priore

Mark A. Del Priore
Chief Financial Officer
(Principal 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.