

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, 2023

or

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

For the transition period from to

Commission File Number: 001-07120



HARTE HANKS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

74-1677284

(I.R.S. Employer
Identification Number)

1 Executive Drive, Suite 303 , Chelmsford , MA 01824
(Address of principal executive offices, including zip code)

(512) 434-1100

(Registrant's telephone number including area code)

None

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

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

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	HHS	NASDAQ

Indicate by check mark 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 the issuer's common stock as of October 15, 2023 was 7,216,314 shares.

HARTE HANKS, INC. AND SUBSIDIARIES
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For the Quarterly Period Ended September 30, 2023

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Item 1. Condensed Consolidated Financial Statements
Harte Hanks, Inc. and Subsidiaries Condensed Consolidated Balance Sheets

In thousands, except shares and per share amounts	September 30, 2023	December 31, 2022
	(unaudited)	(audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,288	\$ 10,364
Accounts receivable (less allowance for doubtful accounts of \$170 and \$163, respectively)	33,303	39,700
Unbilled accounts receivable	10,350	7,893
Contract assets	433	309
Prepaid expenses	2,722	2,176
Prepaid income taxes and income tax receivable	1,221	4,262
Other current assets	878	1,607
Total current assets	62,195	66,311
Property, plant and equipment (less accumulated depreciation of \$37,847 and \$44,013, respectively)	9,279	10,523
Right-of-use assets	16,773	19,169
Other assets		
Intangible assets, net	3,000	3,540
Goodwill	2,426	2,398
Deferred tax assets, net	15,816	16,306
Other long-term assets	1,323	1,737
Total other assets	22,565	23,981
Total assets	<u>\$ 110,812</u>	<u>\$ 119,984</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 18,547	\$ 22,465
Accrued payroll and related expenses	4,944	6,679
Deferred revenue and customer advances	5,681	4,590
Customer postage and program deposits	1,445	1,223
Other current liabilities	2,652	2,862
Current portion of lease liabilities	5,446	5,747
Total current liabilities	38,715	43,566
Pension liabilities - Qualified plans	17,388	18,674
Pension liabilities - Nonqualified plan	18,510	19,098
Long-term lease liabilities, net of current portion	13,553	16,575
Other long-term liabilities	2,142	3,263
Total liabilities	90,308	101,176
Stockholders' equity		
Common stock, \$1 par value, 25,000,000 shares authorized; 12,221,484 shares issued, 7,216,314 and 7,402,614 shares outstanding at September 30, 2023 and December 31, 2022, respectively	12,221	12,221
Additional paid-in capital	160,213	218,411
Retained earnings	846,897	846,490
Less treasury stock, 5,005,170 shares at cost at September 30, 2023 and 4,818,870 shares at cost at December 31, 2022	(953,591)	(1,010,012)
Accumulated other comprehensive loss	(45,236)	(48,302)
Total stockholders' equity	20,504	18,808
Total liabilities and stockholders' equity	<u>\$ 110,812</u>	<u>\$ 119,984</u>

See Accompanying Notes to Condensed Consolidated Financial Statements

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

In thousands, except per share amounts	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 47,119	\$ 53,886	\$ 142,001	\$ 151,500
Operating expenses				
Labor	22,953	27,389	74,084	78,415
Production and distribution	15,378	16,175	43,158	42,400
Advertising, selling, general and administrative	4,922	5,970	16,071	17,243
Depreciation and amortization expense	952	579	3,051	1,764
Total operating expenses	44,205	50,113	136,364	139,822
Operating income	2,914	3,773	5,637	11,678
Other expense (income), net				
Interest expense, net	1	84	(150)	313
Other expense (income), net	383	(4,696)	3,760	(5,951)
Total other expense (income), net	384	(4,612)	3,610	(5,638)
Income before income taxes	2,530	8,385	2,027	17,316
Income tax expense	1,912	1,219	1,620	2,344
Net income	618	7,166	407	14,972
Less: Preferred Stock dividends	—	125	—	371
Less: Earnings attributable to participating securities	—	868	—	1,817
Net income attributable to common stockholders	\$ 618	\$ 6,173	\$ 407	\$ 12,784
Earnings per common share				
Basic	\$ 0.09	\$ 0.87	\$ 0.06	\$ 1.81
Diluted	\$ 0.08	\$ 0.83	\$ 0.05	\$ 1.73
Weighted average shares used to compute income per share attributable to common shares				
Basic	7,239	7,125	7,340	7,045
Diluted	7,314	7,524	7,509	7,418
Comprehensive income, net of tax:				
Net income	\$ 618	\$ 7,166	\$ 407	\$ 14,972
Adjustment to pension liability, net	503	719	1,421	2,307
Foreign currency translation adjustment	(559)	(3,007)	1,645	(6,118)
Total other comprehensive (loss) income, net of tax	\$ (56)	\$ (2,288)	\$ 3,066	\$ (3,811)
Comprehensive income	\$ 562	\$ 4,878	\$ 3,473	\$ 11,161

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

Three Months ended September 30, 2023

In thousands	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at June 30, 2023	\$ -	\$ 12,221	\$ 187,386	\$ 846,279	\$ (980,156)	\$ (45,180)	\$ 20,550
Stock-based compensation	—	—	160	—	—	—	160
Vesting of RSUs	—	—	(27,333)	—	27,055	—	(278)
Repurchase of common stock	—	—	—	—	(490)	—	(490)
Net Income	—	—	—	618	—	—	618
Other comprehensive loss	—	—	—	—	—	(56)	(56)
Balance at September 30, 2023	\$ -	\$ 12,221	\$ 160,213	\$ 846,897	\$ (953,591)	\$ (45,236)	\$ 20,504

Nine Months ended September 30, 2023

In thousands	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2022	\$ -	\$ 12,221	\$ 218,411	\$ 846,490	\$ 1,010,012	\$ (48,302)	\$ 18,808
Stock-based compensation	—	—	1,203	—	—	—	1,203
Vesting of RSUs	—	—	(59,401)	—	58,791	—	(610)
Repurchase of common stock	—	—	—	—	(2,370)	—	(2,370)
Net income	—	—	—	407	—	—	407
Other comprehensive income	—	—	—	—	—	3,066	3,066
Balance at September 30, 2023	\$ -	\$ 12,221	\$ 160,213	\$ 846,897	\$ (953,591)	\$ (45,236)	\$ 20,504

Three Months ended September 30, 2022

In thousands	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
Balance at June 30, 2022	\$ 9,723	\$ 12,121	\$ 272,727	\$ 818,900	\$ 1,066,608	\$ (54,851)	\$ (17,711)
Stock-based compensation	—	—	927	—	—	—	927
Vesting of RSUs	—	—	(53,343)	—	52,460	—	(883)
Net income	—	—	—	7,166	—	—	7,166
Other comprehensive income	—	—	—	—	—	(2,288)	(2,288)
Balance at September 30, 2022	\$ 9,723	\$ 12,121	\$ 220,311	\$ 826,066	\$ 1,014,148	\$ (57,139)	\$ (12,789)

Nine Months ended September 30, 2022

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, 2021	\$ 9,723	\$ 12,121	\$ 290,711	\$ 811,094	\$ 1,085,313	\$ (53,328)	\$ (24,715)
Stock-based compensation	—	—	1,915	—	—	—	1,915
Vesting of RSUs	—	—	(72,315)	—	71,165	—	(1,150)
Net income	—	—	—	14,972	—	—	14,972
Other comprehensive income	—	—	—	—	—	(3,811)	(3,811)
Balance at September 30, 2022	\$ 9,723	\$ 12,121	\$ 220,311	\$ 826,066	\$ 1,014,148	\$ (57,139)	\$ (12,789)

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,	
	2023	2022
Cash Flows from Operating Activities		
Net Income	\$ 407	\$ 14,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	3,051	1,764
Stock-based compensation	1,203	1,776
Net pension cost (payment)	16	(775)
Deferred income taxes	(453)	—
Changes in assets and liabilities:		
Accounts receivable and contract assets	3,816	(2,916)
Prepaid expenses, income tax receivable and other current assets	4,106	2,496
Accounts payable and accrued expenses	(3,785)	4,778
Deferred revenue and customer advances	1,091	3,101
Customer postage and program deposits	222	(1,912)
Other accrued expenses and liabilities	(3,564)	(1,032)
Net cash provided by operating activities	6,110	22,252
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(1,480)	(5,743)
Proceeds from sale of property, plant and equipment	3	57
Net cash used in investing activities	(1,477)	(5,686)
Cash Flows from Financing Activities		
Repayment of borrowings	—	(5,000)
Debt financing costs	(6)	(123)
Payment of finance leases	(144)	(148)
Repurchase of common stock	(2,370)	—
Treasury stock activities	(610)	(1,150)
Net cash used in financing activities	(3,130)	(6,421)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1,421	(6,118)
Net increase in cash and cash equivalents and restricted cash	2,924	4,027
Cash and cash equivalents and restricted cash at beginning of period	11,364	15,133
Cash and cash equivalents and restricted cash at end of period	\$ 14,288 (1)	\$ 19,160
Supplemental disclosures		
Cash paid for interest	\$ 198	\$ 137
Cash (received) paid for income taxes, net	\$ (3,369)	\$ 828
Non-cash investing and financing activities		
Purchases of property, plant and equipment included in accounts payable	\$ 1,935	\$ 2,385
(1) This amount is comprised of the below balances:		
Cash and cash equivalents	\$ 13,288	\$ 6,907
Restricted cash	—	2,327
Cash held in Escrow account included in other assets (see Note L)	1,000	9,926
Cash and cash equivalents and restricted cash at end of period	\$ 14,288	\$ 19,160

See Accompanying Notes to Condensed Consolidated Financial Statements

Harte Hanks, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note A - Overview and Significant Accounting Policies

Background

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

Segment Reporting

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

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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (the "2022 10-K").

Consolidation

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

Interim Financial Information

The condensed consolidated financial statements have been prepared in accordance with U.S. 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 U.S. 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. The prior period amounts in Labor, Production and Distribution, Advertising, Selling, General and Administrative expenses in the condensed consolidated Statements of Comprehensive Income, have been reclassified to conform to the current period's presentation. The most notable change is the reclassification of the \$ 3.8 million of lease expense from Production and Distribution expense to Advertising, Selling, General and Administrative expense.

Use of Estimates

Preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from those estimates due to uncertainties. Such estimates include, but are not limited to, estimates related to lease accounting; pension accounting; fair value for purposes of assessing long-lived assets for impairment; revenue recognition; income taxes; stock-based compensation and contingencies. On an ongoing basis, management reviews its estimates and assumptions based on currently available information. Changes in facts and circumstances could result in revised estimates and assumptions.

Operating Expense Presentation in Condensed Consolidated Statements of Comprehensive Income

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

Revenue Recognition

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

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

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

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Revenue from agency and digital services, direct mail, logistics, fulfillment and contact center is recognized when the work is performed. Fees for these services are determined by the terms set forth in each contract. These fees are typically 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 until client acceptance occurs and direct build costs are capitalized. Pricing for these types of arrangements is typically based on a fixed price determined in the contract. Revenue from other database marketing solutions is recognized ratably over the contractual service period. Pricing for these services is typically based on a fixed price per month or per contract.

Fair Value of Financial Instruments

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

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

Because of their maturities and/or variable interest rates, certain financial instruments have fair values approximating their carrying values. These instruments include cash and cash equivalents and restricted cash, accounts receivable, trade payables, and long-term debt. The fair value of the assets in our funded pension plan is discussed in Note H, *Employee Benefit Plans*.

Leases

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

Note B - Recent Accounting Pronouncements

Recently adopted accounting pronouncements

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

The Company adopted this standard on January 1, 2023 on a prospective basis. The adoption of this new standard did not have a material impact on the Company's financial statements.

Note C - Revenue from Contracts with Customers

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

Under ASC 606, revenue is recognized when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Our contracts with customers state the terms of sale, including the description, quantity, and price of the product sold or service provided. Payment terms can vary by contract, but the period between invoicing and when payment is due is not significant. The Company's contracts with its customers generally do not include rights of return or a significant financing component.

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

Disaggregation of Revenue

We disaggregate revenue by three key revenue streams which are aligned with our business segments. The nature of the services offered by each key revenue stream is different. The following table summarizes revenue from contracts with customers for the three and nine months ended September 30, 2023 and 2022 by our three business segments and the pattern of revenue recognition:

Three Months Ended September 30, 2023				
In thousands	Revenue for performance obligations recognized over time	Revenue for performance obligations recognized at a point in time	Total	
Marketing Services	\$ 9,272	\$ 1,319	\$ 10,591	
Customer Care	13,998	—	13,998	
Fulfillment and Logistics Services	18,625	3,905	22,530	
Total Revenues	\$ 41,895	\$ 5,224	\$ 47,119	

Three Months Ended September 30, 2022				
In thousands	Revenue for performance obligations recognized over time	Revenue for performance obligations recognized at a point in time	Total	
Marketing Services	\$ 10,984	\$ 2,032	\$ 13,016	
Customer Care	17,375	—	17,375	
Fulfillment and Logistics Services	21,398	2,097	23,495	
Total Revenues	\$ 49,757	\$ 4,129	\$ 53,886	

Nine Months Ended September 30, 2023				
In thousands	Revenue for performance obligations recognized over time	Revenue for performance obligations recognized at a point in time	Total	
Marketing Services	\$ 29,321	\$ 3,430	\$ 32,751	
Customer Care	45,625	—	45,625	
Fulfillment and Logistics Services	52,044	11,581	63,625	
Total Revenues	\$ 126,990	\$ 15,011	\$ 142,001	

Nine Months Ended September 30, 2022				
In thousands	Revenue for performance obligations recognized over time	Revenue for performance obligations recognized at a point in time	Total	
Marketing Services	\$ 32,474	\$ 6,915	\$ 39,389	
Customer Care	50,499	—	50,499	
Fulfillment and Logistics Services	53,489	8,123	61,612	
Total Revenues	\$ 136,462	\$ 15,038	\$ 151,500	

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

Marketing Services

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

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

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

Our database solutions are built around centralized marketing databases with services rendered to build custom 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, 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 these solutions are stand-ready obligations to be recognized over time on a monthly basis. Our promise to provide certain data related services meets the over-time recognition criteria because our services do not create an asset with an alternative use, and we have an enforceable right to payment. For performance obligations recognized over time, we choose either the input (*i.e.*, labor hour) or output method (*i.e.*, number of customer records) to measure the progress toward completion depending on the nature of the services provided. Some of our other data-related services do not meet the over-time criteria and are therefore, recognized at a point-in-time, typically upon the delivery of a specific deliverable.

Our contracts may include outsourced print production work for our clients. These contracts may include a promise to purchase postage on behalf of our clients. In such cases, we have determined we are an agent, rather than principal and therefore recognize net consideration as revenue.

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

Customer Care

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

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

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

Fulfillment & Logistics Services

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

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

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

Upfront Non-Refundable Fees

We may receive non-refundable upfront fees from customers for implementation of our SaaS database solutions products or for providing training in connection with our contact center solutions. These activities are not deemed to transfer a separate promised service and therefore, represent advanced payments. Where customers have an option to renew a contract, the customer is not required to pay similar upfront fees upon renewal. As a result, we have determined that these renewal options provide for the purchase of future services at a reduced rate and therefore, provide a material right. These upfront non-refundable fees are recognized over the period of benefit which is generally consistent with estimated customer life (four to five years for database solutions contracts and six months to one year for contact center contracts). The balance of upfront non-refundable fees collected from customers was immaterial as of September 30, 2023 and December 31, 2022.

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 the performance obligations that have an original expected duration of one year or less, transactions using the "as invoiced" practical expedient, or when a performance obligation is a series and we have allocated the variable consideration directly to the services performed. As of September 30, 2023, we had no transaction prices allocated to unsatisfied or partially satisfied performance obligations.

Contract Balances

We record a receivable when revenue is recognized prior to invoicing when we have an unconditional right to consideration (only the passage of time is required before payment of that consideration is due) and a contract asset when the right to payment is conditional upon our future performance such as delivery of an additional good or service (e.g. customer contract requires customer's final acceptance of custom database solution or delivery of final marketing strategy 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, 2023 and December 31, 2022:

In thousands	September 30, 2023	December 31, 2022
Contract assets	433	309
Deferred revenue and customer advances	5,681	4,590
Deferred revenue, included in other long-term liabilities	321	432

Revenue recognized during the nine months ended September 30, 2023 from amounts included in deferred revenue at the beginning of the period was approximately \$ 3.9 million. Revenue recognized during the nine months ended September 30, 2022 from amounts included in deferred revenue at the beginning of the period was approximately \$ 2.9 million.

Costs to Obtain and Fulfill a Contract

We recognize an asset for the direct costs incurred to obtain and fulfill our contracts with customers to the extent that we expect to recover these costs and if the benefit is longer than one year. These costs are amortized to operating expense over the expected period of the benefit in a manner that is consistent with the transfer of the related goods or services to which the asset relates. We impair the asset when recoverability is not anticipated. We capitalized a portion of commission expense, implementation and other costs that represents the cost to obtain a contract. The remaining unamortized contract costs were \$ 0.6 million and \$ 1.0 million as of September 30, 2023 and December 31, 2022, respectively. For the periods presented, no impairment was recognized.

Note D - Leases

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

We subleased our Fullerton (CA), Jacksonville (FL) and Uxbridge (UK) facilities. The lease and sublease for Fullerton (CA) facility expired in April 2023, the lease and sublease for Uxbridge (UK) facility will expire in October 2023 and the lease and sublease for Jacksonville (FL) facility will expire at the end of July 2024.

As of September 30, 2023, assets recorded under finance and operating leases were approximately \$ 0.5 million and \$ 16.3 million, respectively, and accumulated amortization associated with finance leases was \$ 1.0 million. As of December 31, 2022, assets recorded under finance and operating leases were approximately \$ 0.6 million and \$ 18.6 million, respectively, and accumulated amortization associated with finance leases was \$ 1.0 million. 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 utilize 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. Since none of our leases has a readily determinable implicit interest rate, we use our incremental borrowing rate under our Texas Capital Bank Revolver Facility as the discount rate. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received.

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There was no impairment of leases during the three and nine months ended September 30, 2023 and 2022.

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

In thousands	As of September 30, 2023		
	Operating Leases	Finance Leases	Total
Right-of-use Assets	\$ 16,289	\$ 484	\$ 16,773
Liabilities			
Current portion of lease liabilities	5,388	58	5,446
Long-term lease liabilities	13,538	15	13,553
Total Lease Liabilities	<u>\$ 18,926</u>	<u>\$ 73</u>	<u>\$ 18,999</u>

In thousands	As of December 31, 2022		
	Operating Leases	Finance Leases	Total
Right-of-use Assets	\$ 18,574	\$ 595	\$ 19,169
Liabilities			
Short-term lease liabilities	5,587	160	5,747
Long-term lease liabilities	16,523	52	16,575
Total Lease Liabilities	<u>\$ 22,110</u>	<u>\$ 212</u>	<u>\$ 22,322</u>

For the three and nine months ended September 30, 2023 and 2022, the components of lease expense were as follows:

In thousands	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022
Operating lease cost	\$ 1,338	\$ 1,393
Finance lease cost:		
Amortization of right-of-use assets	35	39
Interest on lease liabilities	2	4
Total Finance lease cost	37	43
Variable lease cost	537	433
Sublease income	(177)	(128)
Total lease cost, net	<u>\$ 1,735</u>	<u>\$ 1,741</u>

In thousands	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Operating lease cost	\$ 4,160	\$ 4,393
Finance lease cost:		
Amortization of right-of-use assets	115	126
Interest on lease liabilities	6	13
Total Finance lease cost	121	139
Variable lease cost	1,525	1,419
Sublease income	(676)	(539)
Total lease cost, net	<u>\$ 5,130</u>	<u>\$ 5,412</u>

Other information related to leases was as follows:

In thousands	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Supplemental Cash Flows Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 9,525	\$ 10,995
Operating cash flows from finance leases	6	12
Financing cash flows from finance leases	144	148
Weighted Average Remaining Lease term		
Operating leases	5.6	6.3
Finance leases	1.3	1.6
Weighted Average Discount Rate		
Operating leases	3.56%	3.39%
Finance leases	7.04%	5.60%

The maturities of the Company's finance and operating lease liabilities as of September 30, 2023 are as follows:

In thousands	Operating Leases (1)	Finance Leases
Year Ending December 31,		
Remainder of 2023	\$ 1,600	\$ 18
2024	5,286	50
2025	2,873	8
2026	2,373	—
2027	2,291	—
2027 and beyond	6,217	—
Total future minimum lease payments	20,640	76
Less: imputed interest	1,714	3
Total lease liabilities	<u>\$ 18,926</u>	<u>\$ 73</u>

(1) Non-cancelable sublease proceeds for the remainder of the fiscal year ending December 31, 2023 and the fiscal year ending December 31, 2024 of \$ 0.2 million and \$ 0.4 million, respectively, are not included in the table above.

Note E - Convertible Preferred Stock and Share Repurchase Program

Convertible Preferred Stock

Our Amended and Restated Certificate of Incorporation authorizes us to issue 1.0 million shares of preferred stock. On January 30, 2018, we issued 9,926 shares of our Series A Preferred Stock to Wipro, LLC d/b/a Wipro US Branch IT Services ("Wipro") at an issue price of \$ 1,000 per share, for gross proceeds of \$ 9.9 million pursuant to a Certificate of Designation filed with the State of Delaware on January 29, 2018. We incurred \$ 0.2 million of transaction fees in connection with the issuance of the Series A Preferred Stock which were netted against the gross proceeds of \$ 9.9 million on our Condensed Consolidated Financial Statements.

On June 30, 2022, the Company entered into a share repurchase agreement (the "Repurchase Agreement") with Wipro, pursuant to which the Company agreed to repurchase all 9,926 shares of the Company's Series A Preferred Stock then outstanding in exchange for (i) a cash payment equal to their liquidation value, or total cash payment of \$ 9,926,000 and (ii) 100,000 shares of the Company's common stock, par value \$ 1.00 per share (the "Common Stock"). The cash portion of the repurchase price was paid into escrow at the signing of the Repurchase Agreement on June 30, 2022 and held in escrow until the closing of the repurchase on December 2, 2022.

On March 20, 2023, the Company cancelled all shares of Series A Preferred Stock pursuant to the Certificate of Elimination filed with the Secretary of State of Delaware.

Share Repurchase Program

On May 2, 2023, the Board of Directors of Harte Hanks approved a share repurchase program to maximize shareholder value with authorization to repurchase \$ 6.5 million of the Company's Common Stock. In the three and nine months ended September 30, 2023, we repurchased 0.1 and 0.4 million shares of common stock for \$ 0.5 million and \$ 2.4 million, respectively.

Note F — Long-Term Debt

Credit Facility

As of September 30, 2023 and December 31, 2022, we had no outstanding borrowings under the Credit Facility (as defined below).

As of September 30, 2023 and December 31, 2022, we had letters of credit outstanding in the amount of \$ 0.8 million. No amounts were drawn against these letters of credit at September 30, 2023. These letters of credit exist to support insurance programs relating to worker's compensation, automobile, and general liability.

As of September 30, 2023, we had the ability to borrow \$ 24.2 million under the New Credit Facility.

On December 21, 2021, the Company entered into a three-year, \$ 25.0 million asset-based revolving credit facility (the "Credit Facility") with Texas Capital Bank. The Company's obligations under the Credit Facility are guaranteed on a joint and several basis by the Company's material subsidiaries (the "Guarantors"). The Credit Facility is secured by substantially all of the assets of the Company and the Guarantors pursuant to a Pledge and Security Agreement, dated as of December 21, 2021, among the Company, Texas Capital Bank and the other grantors party thereto (the "Security Agreement").

The Credit Facility is subject to certain covenants restricting the Company's and its subsidiaries' ability to create, incur, assume or become liable for indebtedness; make certain investments; pay dividends or repurchase the Company's stock; create, incur or assume liens; consummate mergers or acquisitions; liquidate, dissolve, suspend or cease operations; or modify accounting or tax reporting methods (other than as required by U.S. GAAP). The Company was in compliance with all of the requirements as of September 30, 2023.

The loans under the Credit Facility accrue interest at a variable rate equal to the Bloomberg Short-Term Bank Yield Index Rate plus a margin of 2.25 % per annum. The interest rate was 7.62% as of September 30, 2023. The outstanding amounts advanced under the Credit Facility are due and payable in full on December 21, 2024. Unused commitment balances accrue fees at a rate of 0.25 %.

Cash payments for interest were \$ 34 thousand and \$ 52 thousand for the three months ended September 30, 2023 and 2022, respectively. Cash payments for interest were \$ 198 thousand and \$ 137 thousand for the nine months ended September 30, 2023 and 2022, respectively.

Note G — Stock-Based Compensation

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

Compensation expense for stock-based awards is based on the fair values of the awards on the date of grant and is recognized on a straight-line basis over the vesting period of the entire award in the "Labor" line of the Condensed Consolidated Statements of Comprehensive Income. We recognized \$ 0.2 million and \$ 0.9 million of stock-based compensation expense during the three months ended September 30, 2023 and 2022, respectively. We recognized \$ 1.2 million and \$ 1.8 million of stock-based compensation expense during the nine months ended September 30, 2023 and 2022, respectively.

Note H — Employee Benefit Plans

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

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

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

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

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

Net pension cost for both plans included the following components:

In thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest cost	\$ 1,772	\$ 1,260	\$ 5,316	\$ 3,780
Expected return on plan assets	(1,554)	(1,468)	(4,662)	(4,404)
Recognized actuarial loss	630	719	1,890	2,157
Net periodic benefit cost	\$ 848	\$ 511	\$ 2,544	\$ 1,533

Based on current estimates, we will be required to make a \$ 1.6 million contribution to the combined qualified Pension Plan in 2023. We made \$ 1.2 million of such \$ 1.6 million aggregate contribution in the nine months ended September 30, 2023.

We are not required to make, and do not intend to make, any contributions to our Restoration Pension Plan in 2023 other than to the extent needed to cover benefit payments. We made benefit payments under this supplemental plan of \$ 1.4 million and \$ 1.3 million in the nine months ended September 30, 2023 and 2022, respectively.

Note I - Income Taxes

The income tax provision was \$ 1.9 million and \$ 1.2 million for the three months ended September 30, 2023 and 2022, respectively. The provision for income taxes resulted in an effective income tax rate of 75.6 % for the three months ended September 30, 2023 and 14.5 % for the three months ended September 30, 2022.

The income tax provision was \$ 1.6 million and \$ 2.3 million for the nine months ended September 30, 2023 and 2022, respectively. The provision for income taxes resulted in an effective income tax rate of 79.9 % for the nine months ended September 30, 2023 and 13.5 % for the nine months ended September 30, 2022.

Harte Hanks, or one of our subsidiaries file income tax returns in the U.S. federal, U.S. state, and foreign jurisdictions. For U.S. state returns, we are no longer subject to tax examinations for tax years prior to 2017. For U.S. federal and foreign returns, we are no longer subject to tax examinations for tax years prior to 2017.

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 Income. We did not have a significant amount of interest or penalties accrued at September 30, 2023 or December 31, 2022.

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 December 2022, we repurchased all 9,926 shares of the Company's Series A Preferred Stock then outstanding.

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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,	
	2023	2022
Numerator:		
Net income	\$ 618	\$ 7,166
Less: Preferred stock dividends	—	125
Less: Earnings attributable to participating securities	—	868
Numerator for basic EPS: income attributable to common stockholders	618	6,173
Effect of dilutive securities:		
Add back: Allocation of earnings to participating securities	—	868
Less: Re-allocation of earnings to participating securities considering potentially dilutive securities	—	(827)
Numerator for diluted EPS	\$ 618	\$ 6,214
Denominator:		
Basic EPS denominator: weighted-average common shares outstanding	7,239	7,125
Diluted EPS denominator	7,314	7,524
Basic income per Common Share	\$ 0.09	\$ 0.87
Diluted income per Common Share	\$ 0.08	\$ 0.83

For the three months ended September 30, 2023 and 2022, respectively, the following shares have been excluded from the calculation of shares used in the diluted EPS calculation: 132,193 and 12,694 shares of anti-dilutive market price options; 58,869 and 0 of anti-dilutive unvested restricted shares; and 0 and 1,001,614 shares of anti-dilutive Series A Preferred Stock (as if converted).

In thousands, except per share amounts	Nine Months Ended September 30,	
	2023	2022
Numerator:		
Net income	\$ 407	\$ 14,972
Less: Preferred stock dividend	—	371
Less: Earnings attributable to common stockholders	—	1,817
Numerator for basic EPS: income attributable to common stockholders	407	12,784
Effect of dilutive securities:		
Add back: Allocation of earnings to participating securities	—	1,817
Less: Re-allocation of earnings to participating securities considering potentially dilutive securities	—	(1,737)
Numerator for diluted EPS	\$ 407	\$ 12,864
Denominator:		
Basic EPS denominator: weighted-average common shares outstanding	7,340	7,045
Diluted EPS denominator	7,509	7,418
Basic income per Common Share	\$ 0.06	\$ 1.81
Diluted income per Common Share	\$ 0.05	\$ 1.73

For the nine months ended September 30, 2023 and 2022, respectively, the following shares have been excluded from the calculation of shares used in the diluted EPS calculation: 8,098 and 13,602 shares of anti-dilutive market price options; 40,389 and 16,849 of anti-dilutive unvested restricted shares; and 0 and 1,001,614 shares of anti-dilutive Series A Preferred Stock (as if converted).

Note K — Comprehensive Income

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

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

In thousands	Defined Benefit Pension Items	Foreign Currency Items	Total
Balance at December 31, 2022	\$ (44,120)	\$ (4,182)	\$ (48,302)
Other comprehensive income, net of tax, before reclassifications	—	1,421	1,421
Amounts reclassified from accumulated other comprehensive income, net of tax, to other, net, on the condensed consolidated statements of comprehensive income	1,645	—	1,645
Net current period other comprehensive income, net of tax	1,645	1,421	3,066
Balance at September 30, 2023	\$ (42,475)	\$ (2,761)	\$ (45,236)

In thousands	Defined Benefit Pension Items	Foreign Currency Items	Total
Balance at December 31, 2021	\$ (54,394)	\$ 1,066	\$ (53,328)
Other comprehensive loss, net of tax, before reclassifications	—	(6,118)	(6,118)
Amounts reclassified from accumulated other comprehensive income, net of tax, to other, net, on the condensed consolidated statements of comprehensive income	2,307	—	2,307
Net current period other comprehensive income (loss), net of tax	2,307	(6,118)	(3,811)
Balance at September 30, 2022	\$ (52,087)	\$ (5,052)	\$ (57,139)

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

Note L — Acquisition of Inside Out Solutions, LLC

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

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

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

Pursuant to the Asset Purchase Agreement, \$ 5.75 million of the Purchase Price was paid in cash at closing. \$ 1.0 million in cash was placed in escrow to satisfy indemnification obligations, if any, and separately, to satisfy earn-outs related to future revenue performance. In addition, \$ 0.75 million of the Purchase Price was paid at closing in shares of Common Stock issued in a private placement. The share amount was based on the volume weighted closing price over the fifteen trading days ending on November 28, 2022. The \$ 1.0 million of cash in the escrow account is included in other current assets in our balance sheet as of September 30, 2023 and December 31, 2022.

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

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

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

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We recognized \$ 3.6 million of intangible assets and \$ 2.4 million of goodwill associated with this acquisition. The amount of goodwill recorded reflects expected earning potential and synergies with our Customer Care segment. We are amortizing the intangible assets on a straight-line basis over its useful life of five years. The amortization expense for the three and nine months ended September 30, 2023 were \$ 180 thousand and \$ 540 thousand, respectively. A summary of the Company's intangible asset as of September 30, 2023 is as follows:

In thousands	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer Relationships	5 years	\$ 3,600	\$ 600	\$ 3,000

Estimated future amortization expense related to intangible assets as of September 30, 2023 is as follows:

In thousands	Amount
Year Ending December 31,	
Remainder of 2023	\$ 180
2024	720
2025	720
2026	720
2027	660
Total	\$ 3,000

The Company's result of operations for the three and nine months ended September 30, 2023 includes revenue of \$ 2.2 million and \$ 7.3 million, respectively, and net earnings of \$ 0.1 million and 0.7 million, respectively, from the InsideOut operation.

Note M — Litigation and Contingencies

In the normal course of our business, we are obligated under some agreements to indemnify our clients as a result of claims that we infringe on the proprietary rights of third parties. The terms and duration of these commitments vary and, in some cases, may be indefinite, and certain of these commitments do not limit the maximum amount of future payments we could become obligated to make thereunder. 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.

Note N — Segment Reporting

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

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

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

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

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

The following table presents financial information by segment:

Three Months ended September 30, 2023	Marketing Services	Customer Care	Fulfillment and Logistics Services (In thousands)	Unallocated Corporate	Total
Revenues	\$ 10,591	\$ 13,998	\$ 22,530	\$ —	\$ 47,119
Segment Operating Expense	\$ 8,370	\$ 11,339	\$ 18,995	\$ 4,549	\$ 43,253
Contribution margin (loss)	\$ 2,221	\$ 2,659	\$ 3,535	\$ (4,549)	\$ 3,866
Shared Services	\$ 706	\$ 668	\$ 680	\$ (2,054)	\$ —
EBITDA	\$ 1,515	\$ 1,991	\$ 2,855	\$ (2,495)	\$ 3,866
Depreciation and amortization	\$ 71	\$ 253	\$ 249	\$ 379	\$ 952
Operating income (loss)	\$ 1,444	\$ 1,738	\$ 2,606	\$ (2,874)	\$ 2,914
Three Months ended September 30, 2022	Marketing Services	Customer Care	Fulfillment and Logistics Services (In thousands)	Unallocated Corporate	Total
Revenues	\$ 13,016	\$ 17,375	\$ 23,495	\$ —	\$ 53,886
Segment Operating Expense	\$ 9,970	\$ 13,661	\$ 19,865	\$ 6,038	\$ 49,534
Contribution margin (loss)	\$ 3,046	\$ 3,714	\$ 3,630	\$ (6,038)	\$ 4,352
Shared Services	\$ 1,125	\$ 743	\$ 853	\$ (2,721)	\$ —
EBITDA	\$ 1,921	\$ 2,971	\$ 2,777	\$ (3,317)	\$ 4,352
Depreciation and amortization	\$ 98	\$ 206	\$ 176	\$ 99	\$ 579
Operating income (loss)	\$ 1,823	\$ 2,765	\$ 2,601	\$ (3,416)	\$ 3,773
Nine Months ended September 30, 2023	Marketing Services	Customer Care	Fulfillment and Logistics Services (In thousands)	Unallocated Corporate	Total
Revenues	\$ 32,751	\$ 45,625	\$ 63,625	\$ —	\$ 142,001
Segment Operating Expense	\$ 26,464	\$ 36,534	\$ 54,435	\$ 15,880	\$ 133,313
Contribution margin	\$ 6,287	\$ 9,091	\$ 9,190	\$ (15,880)	\$ 8,688
Shared Services	\$ 2,261	\$ 2,102	\$ 2,203	\$ (6,566)	\$ —
EBITDA	\$ 4,026	\$ 6,989	\$ 6,987	\$ (9,314)	\$ 8,688
Depreciation and amortization	\$ 167	\$ 1,024	\$ 736	\$ 1,124	\$ 3,051
Operating income (loss)	\$ 3,859	\$ 5,965	\$ 6,251	\$ (10,438)	\$ 5,637
Nine Months ended September 30, 2022	Marketing Services	Customer Care	Fulfillment and Logistics Services (1) (In thousands)	Unallocated Corporate	Total
Revenues	\$ 39,389	\$ 50,499	\$ 61,612	\$ —	\$ 151,500
Segment Operating Expense	\$ 30,903	\$ 39,434	\$ 50,795	\$ 16,926	\$ 138,058
Contribution margin	\$ 8,486	\$ 11,065	\$ 10,817	\$ (16,926)	\$ 13,442
Shared Services	\$ 3,290	\$ 2,139	\$ 2,483	\$ (7,912)	\$ —
EBITDA	\$ 5,196	\$ 8,926	\$ 8,334	\$ (9,014)	\$ 13,442
Depreciation and amortization	\$ 288	\$ 609	\$ 581	\$ 286	\$ 1,764
Operating income (loss)	\$ 4,908	\$ 8,317	\$ 7,753	\$ (9,300)	\$ 11,678

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

These forward-looking statements are based on current information, expectations, and estimates and involve risks, uncertainties, assumptions, and other factors that are difficult to predict and that could cause actual results to vary materially from what is expressed in or indicated by the forward-looking statements. In that event, our business, financial condition, results of operations, or liquidity could be materially adversely affected and investors in our securities could lose part or all of their investments. A discussion of some of these risks, uncertainties, assumptions, and other factors can be found in our filings with the SEC, including the factors discussed under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (the "2022 10-K"), "Part II - Item 1A. Risk Factors" in this Quarterly Report, and in our other reports filed or furnished with the SEC. 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 is intended to enable the reader to understand the results of operations and financial condition of Harte Hanks, including any material changes in the Company's financial condition and results of operations since December 31, 2022, and as compared with the three and nine months ended September 30, 2022. This section is provided as a supplement to, and should be read in conjunction with, our Condensed Consolidated Financial Statements and the accompanying notes included herein as well as our 2022 10-K. Our 2022 10-K contains a discussion of other matters not included herein, such as disclosures regarding critical accounting policies and estimates, and contractual obligations. See Note A, *Overview and Significant Accounting Policies*, in the Notes to Condensed Consolidated Financial Statements for further information.

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

We are affected by the general, national, and international economic, geopolitical 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 our clients, among other factors. Due to the recent increases in inflation and interest rates throughout the globe, and other geopolitical uncertainties, including but not limited to the ongoing war between Russia and Ukraine and conflict in the Middle East, there is continued uncertainty and significant disruption in the global economy and financial markets. We remain committed to making the investments necessary to execute our multichannel strategy while also continuing to adjust our cost structure to appropriately reflect our operations and outlook.

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

Recent Developments

Executive Transition

Effective as of June 19, 2023, our Board of Directors appointed media-industry veteran Kirk Davis to serve as our Chief Executive Officer ("CEO") and nominated Mr. Davis to the Board of Directors, to serve until our 2024 annual meeting of stockholders and until his successor is elected or qualified, or until his earlier death, resignation or removal. Mr. Davis has decades of media and marketing expertise, most recently served as CEO of legacy publishing company Metro Corp. and previously served as CEO of GateHouse Media, which was the second-largest regional publishing company in the United States before merging with Gannett in 2019.

Effective as of October 23, 2023, our Board of Directors appointed David Garrison to serve as our interim Chief Financial Officer ("CFO"). Mr. Garrison brings 20 years of public company CFO experience, with particular expertise in cost containment, streamlining operations, and enterprise resource implementation. Mr. Garrison most recently served as the CFO of Digital Lumens Incorporated, a smart lighting fixture and factory automation technology company, and previously served as CFO of Sensera, Inc., an Australian listed medical and smart technology company.

Changes in Segment Reporting

To improve our strategic posture in terms of go-to-market approach and cost structure, we have begun the process of combining our Marketing Services and Customer Care segment into a single segment called Customer Experience. We expect the revised segment structure to be complete by the end of 2023.

Share Repurchase Program

On May 2, 2023, the Board of Directors of Harte Hanks approved a share repurchase program to maximize shareholder value with authorization to repurchase \$6.5 million of the Company's Common Stock. In the three months and nine months ended September 30, 2023, we repurchased 0.1 million and 0.4 million shares of common stock for \$0.5 million and \$2.4 million, respectively. After giving effect to these repurchases, we have remaining authority of \$4.1 million to repurchase shares remaining under the program.

Acquisition of Inside Out Solutions, LLC

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

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

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

Results of Operations

Operating results were as follows:

In thousands, except percentages	Three Months Ended September 30,			% Change	Nine Months Ended September 30,			% Change
	2023	2022			2023	2022		
Revenues	\$ 47,119	\$ 53,886		(12.6)%	\$ 142,001	\$ 151,500		(6.3)%
Operating expenses	44,205	50,113		(11.8)%	136,364	139,822		(2.5)%
Operating income	\$ 2,914	\$ 3,773		(22.8)%	\$ 5,637	\$ 11,678		(51.7)%
Operating margin	6.2%	7.0%			4.0%	7.7%		
Income before income taxes	\$ 2,530	\$ 8,385		(69.8)%	\$ 2,027	\$ 17,316		(88.3)%
Diluted earnings per common share from operations	\$ 0.08	\$ 0.83		(90.4)%	\$ 0.05	\$ 1.73		(97.1)%

Consolidated Results

Revenues

Three months ended September 30, 2023 vs. Three months ended September 30, 2022

Revenues decreased \$6.8 million, or 12.6%, in the three months ended September 30, 2023, compared to the three months ended September 30, 2022. Revenue in our Customer Care segment decreased \$3.4 million, or 19.4%, to \$14.0 million, and revenue in our Marketing Services segment decreased \$2.4 million, or 18.6%, to \$10.6 million. Revenue in our Fulfillment & Logistics Services segment decreased \$1.0 million, or 4.1%, to \$22.5 million.

Nine months ended September 30, 2023 vs. Nine months ended September 30, 2022

Revenues decreased \$9.5 million, or 6.3%, in the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. Revenue in our Marketing Services segment decreased \$6.6 million, or 16.9%, to \$32.8 million, and revenue in our Customer Care segment decreased \$4.9 million, or 9.7%, to \$45.6 million. Revenue in our Fulfillment & Logistics Services segment increased \$2.0 million, or 3.3%, to \$63.6 million, which partially offset the above decreases.

Operating Expenses

Three months ended September 30, 2023 vs. Three months ended September 30, 2022

Operating expenses were \$44.2 million in the three months ended September 30, 2023, a decrease of \$5.9 million, or 11.8%, compared to \$50.1 million in the three months ended September 30, 2022.

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Labor expense decreased \$4.4 million, or 16.2%, in the three months ended September 30, 2023, compared to the three months ended September 30, 2022 primarily due to the reduction in workforce in our Customer Care and Marketing Services segment as well as lower stock compensation expense. Advertising, Selling, General and Administrative expenses decreased \$1.0 million, or 17.6%, in the three months ended September 30, 2023, compared to three months ended September 30, 2022 primarily due to reduced software licensing fees and lower professional fees. Production and Distribution expenses decreased \$0.8 million, or 4.9%, in the three months ended September 30, 2023, compared to the three months ended September 30, 2022, primarily due to lower transportation services cost associated with the lower Fulfillment & Logistics segment revenue as compared to the prior year quarter.

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

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

Nine months ended September 30, 2023 vs. Nine months ended September 30, 2022

Operating expenses were \$136.4 million in the nine months ended September 30, 2023, a decrease of \$3.4 million, or 2.5%, compared to \$139.8 million in the nine months ended September 30, 2022.

Labor expense decreased \$4.3 million, or 5.5%, in the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022 primarily due to the reduction in workforce in our Customer Care and Marketing Services segment from lower revenue which was partially offset by higher severance expense. Advertising, Selling, General and Administrative expenses decreased \$1.2 million, or 6.8%, in the nine months ended September 30, 2023, compared to nine months ended September 30, 2022 primarily due to reduced software licensing fees. Production and Distribution expenses increased \$0.8 million, or 1.8%, in the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022, due to the change in revenue mix resulting in higher transportation costs in our Fulfillment & Logistics Services segment.

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

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

Interest (Income) expense, net

Three months ended September 30, 2023 vs. Three months ended September 30, 2022

Interest expense, net, in the three months ended September 30, 2023 was \$1k as compared to \$84k for the three months ended September 30, 2022. The \$83k decrease was primarily due to the lower debt level.

Nine months ended September 30, 2023 vs. Nine months ended September 30, 2022

Interest income, net, in the nine months ended September 30, 2023 was \$150k as compared to the interest expense, net of \$313k for the nine months ended September 30, 2022. The \$463k improvement was primarily driven by the interest income we received from the IRS related to our tax refund claims during the first quarter of 2023.

Other expense (income), net

Three months ended September 30, 2023 vs. Three months ended September 30, 2022

Other expense (income), net, for the three months ended September 30, 2023 was \$0.4 million of expense compared to \$4.7 of other income, net, in the prior year quarter. The \$5.1 million increase in other expense, net was mainly associated with changes in foreign currency gain and loss account.

Nine months ended September 30, 2023 vs. Nine months ended September 30, 2022

Other expense, net, for the nine months ended September 30, 2023 was \$3.8 million of expense compared to \$6.0 million of other income, net, in the prior year quarter. The \$9.7 million increase in other expense, net was mainly associated with changes in foreign currency gain and loss account.

Income Taxes

Three months ended September 30, 2023 vs. Three months ended September 30, 2022

The income tax provision of \$1.9 million in the third quarter of 2023 represents an increase in income tax provision of \$0.7 million when compared to the third quarter of 2022. Our effective tax rate was 75.6% for the third quarter of 2023, an increase of 61.1% from the effective tax rate of 14.5% for the third quarter of 2022. The effective tax rate differs from the federal statutory rate of 21.0%, primarily due to the change in valuation allowance, U.S. state income taxes and income earned in foreign jurisdictions.

Nine months ended September 30, 2023 vs. Nine months ended September 30, 2022

The income tax provision of \$1.6 million in the nine months ended September 30, 2023 represents a decrease in income tax provision of \$0.7 million when compared to the nine months ended September 30, 2022. Our effective tax rate was 79.9% for the nine months ended September 30, 2023, an increase of 66.4% from the effective tax rate of 13.5% for the nine months ended September 30, 2022. The effective tax rate differs from the federal statutory rate of 21.0%, primarily due to the change in valuation allowance, U.S. state income taxes and income earned in foreign jurisdictions.

Segment Results

The following is a discussion and analysis of the results of our reporting segments for the three months ended September 30, 2023 and 2022. There are three principal financial measures reported to our CEO (the chief operating decision maker) for use in assessing segment performance and allocating resources. Those measures are revenue, operating income and operating income plus depreciation and amortization ("EBITDA"). For additional information, see Note N, *Segment Reporting*, in the Notes to Condensed Consolidated Financial Statements.

Marketing Services:

In thousands	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
Revenues	\$ 10,591	\$ 13,016	(18.6)%	\$ 32,751	\$ 39,389	(16.9)%
EBITDA	1,515	1,921	(21.1)%	4,026	5,196	(22.5)%
Operating Income	1,444	1,823	(20.8)%	3,859	4,908	(21.4)%
Operating Income % of Revenue	13.6%	14.0%		11.8%	12.5%	

Three months ended September 30, 2023 vs. Three months ended September 30, 2022

Marketing Services segment revenue decreased \$2.4 million, or 18.6%, due to a decrease of service volume from existing customers. Operating income for the three months ended September 30, 2023 decreased \$0.4 million from the prior year quarter due to the reduced revenue.

Nine months ended September 30, 2023 vs. Nine months ended September 30, 2022

Marketing Services segment revenue decreased \$6.6 million, or 16.9%, due to a decrease in direct mail service volume from existing customers. Operating income for the nine months ended September 30, 2023 decreased \$1.0 million from the prior year quarter due to the lower revenue.

Customer Care:

In thousands	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
Revenues	\$ 13,998	\$ 17,375	(19.4)%	\$ 45,625	\$ 50,499	(9.7)%
EBITDA	1,991	2,971	(33.0)%	6,989	8,926	(21.7)%
Operating Income	1,738	2,765	(37.1)%	5,965	8,317	(28.3)%
Operating Income % of Revenue	12.4%	15.9%		13.1%	16.5%	

Three months ended September 30, 2023 vs. Three months ended September 30, 2022

Customer Care segment revenue decreased \$3.4 million, or 19.4%, primarily due to decreased project work which was partially offset by \$2.2M revenue associated with InsideOut acquired in December 2022. Operating Income was \$1.7 million for the three months ended September 30, 2023, compared to operating income of \$2.8 million for the three months ended September 30, 2022. The \$1.1 million decrease was related to the lower revenue.

Nine months ended September 30, 2023 vs. Nine months ended September 30, 2022

Customer Care segment revenue decreased \$4.9 million, or 9.7%, primarily due to the decrease in both non-recurring pandemic-related projects and a large non-recurring recall project in 2022 which was partially offset by \$7.3 million revenue from InsideOut. Operating Income was \$6.0 million for the nine months ended September 30, 2023, compared to operating income of \$8.3 million for the nine months ended September 30, 2022. The \$2.3 million decrease was due to lower revenue.

Fulfillment & Logistics Services:

In thousands	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
Revenues	\$ 22,530	\$ 23,495	(4.1)%	\$ 63,625	\$ 61,612	3.3%
EBITDA	2,855	2,777	2.8%	6,987	8,334	(16.2)%
Operating Income	2,606	2,601	0.2%	6,251	7,753	(19.4)%
Operating Income % of Revenue	11.6%	11.1%		9.8%	12.6%	

Three months ended September 30, 2023 vs. Three months ended September 30, 2022

Fulfillment & Logistics Services segment revenue decreased by \$1.0 million due to declined volume from the existing customers. Operating income stayed flat at \$2.6 million for the three months ended September 30, 2023 and 2022.

Nine months ended September 30, 2023 vs. Nine months ended September 30, 2022

Fulfillment & Logistics Services segment revenue increased \$2.0 million, or 3.3%, primarily driven by the increase in work from existing customers. Operating income was \$6.3 million for the nine months ended September 30, 2023 compared to \$7.8 million for the nine months ended September 30, 2022. The \$1.5 million decrease in operating income was primarily due to the change in revenue mix and higher transportation costs associated with higher logistics revenue.

Liquidity and Capital Resources*Sources and Uses of Cash*

Our cash and cash equivalent balances were \$13.3 million and \$10.4 million at September 30, 2023 and December 31, 2022, respectively. As of September 30, 2023, we had the ability to borrow an additional \$24.2 million under our Credit Facility. The cash deposited in an escrow account to satisfy our contingent payment obligations in connection with the acquisition of InsideOut is not included in our cash and cash equivalent or restricted cash balances as of September 30, 2023.

We received \$2.5 million in tax refunds in 2022 and received an additional tax refund of \$5.3 million in March 2023, as a result of the change to the tax NOL carryback provisions included in the CARES Act. Our principal sources of liquidity are cash on hand, cash provided by operating activities, and borrowings available under our Credit Facility. Our cash is primarily used for general corporate purposes, working capital requirements, and capital expenditures.

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

Operating Activities

Net cash provided by the operating activities for the nine months ended September 30, 2023 was \$6.1 million, compared to net cash provided by operating activities of \$22.3 million for the nine months ended September 30, 2022. The \$16.1 million year-over-year decrease in cash provided by operating activities was primarily driven by lower net income of \$14.6 million and the \$11.1 million decrease in accounts payable, accrued expenses and other liabilities, which was partially offset by a \$6.7 million decrease in accounts receivable and contract assets, and a \$1.6 million decrease in prepaid and other current assets in the nine months ended September 30, 2023 as compared to the same period in 2022.

Investing Activities

Net cash used in investing activities was \$1.5 million for the nine months ended September 30, 2023, compared to \$5.7 million for the nine months ended September 30, 2022. The \$4.2 million year-over-year decrease in cash used in investing activities was primarily due to the \$4.3 million less cash used to purchase property, plant and equipment (mainly for our new ERP system) in the nine months ended September 30, 2023 as compared to 2022.

Financing Activities

Net cash used in financing activities was \$3.1 million for the nine months ended September 30, 2023, as compared to \$6.4 million of net cash used in financing activities for the nine months ended September 30, 2022. The \$3.3 million decrease was primarily related to the \$2.4 million used to repurchase our common stock in the nine months ended September 30, 2023 as compared to the paydown of the \$5.0 million borrowing under our Credit Facility in the nine months ended September 30, 2022.

Foreign Holdings of Cash

Consolidated foreign holdings of cash as of September 30, 2023 and 2022 were \$4.0 million and \$1.8 million, respectively.

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Long Term Debt

On December 21, 2021, the Company entered into a three-year, \$25.0 million asset-based revolving credit facility with Texas Capital Bank. The Company's obligations under the Credit Facility are guaranteed on a joint and several basis by the Company's material subsidiaries (the "Guarantors"). The Credit Facility is secured by substantially all of the assets of the Company and the Guarantors pursuant to a Pledge and Security Agreement, dated as of December 21, 2021, among the Company, TCB and the other grantors party thereto (the "Security Agreement").

The Credit Facility provides for loans up to the lesser of (a) \$25.0 million, and (b) the amount available under a "borrowing base" calculated primarily by reference to the Company's cash and cash equivalents and accounts receivables. The Credit Facility allows the Company to use up to \$3.0 million of its borrowing capacity to issue letters of credit.

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

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

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

As of September 30, 2023 and December 31, 2022, we had no borrowings outstanding under the Credit Facility. At each of September 30, 2023 and December 31, 2022, we had letters of credit in the amount of \$0.8 million outstanding. No amounts were drawn against these letters of credit at September 30, 2023 and December 31, 2022. These letters of credit exist to support insurance programs relating to workers' compensation, automobile, and general liability. We had no other off-balance sheet financing activities at September 30, 2023 and December 31, 2022.

As of September 30, 2023, we had the ability to borrow an additional \$24.2 million under the Credit Facility.

Dividends

We did not pay any dividends in three and nine months ended September 30, 2023 and 2022.

Share Repurchase

On May 2, 2023, the Board of Directors of Harte Hanks approved a share repurchase program to maximize shareholder value with authorization to repurchase \$6.5 million of the Company's Common Stock. In the three and nine months ended September 30, 2023, we repurchased 0.1 million and 0.4 million shares of common stock for \$0.5 million and \$2.4 million, respectively.

Outlook

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

Critical and Recent Accounting Policies

Critical accounting estimates 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. Actual results could differ materially from those estimates under different assumptions and conditions. Refer to the 2022 10-K for a discussion of our critical accounting estimates.

Our Significant Accounting policies are described in Note A, Overview and Significant Accounting Policies, in the Notes to Condensed Consolidated Financial Statements.

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

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, including our CEO and CFO, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of September 30, 2023, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective, at the "reasonable assurance" level, to ensure information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

Information regarding legal proceedings is set forth in Note M, *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 2022 10-K, which could materially affect our business, financial condition, or future results. The risks described in our 2022 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, 2023 to the risk factors previously disclosed in the 2022 10-K.

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

We did not sell any unregistered equity securities during the quarter ended September 30, 2023.

The following table provides information with respect to purchases by the Company of shares of our Common Stock during the quarter ended September 30, 2023:

Period	Total Number of Shares (or units) Purchased	Average Price per Share (or unit)	Total number of Shares Purchased as Part of a Publicly Announced Plan or Program	Approximate dollar value of shares that may yet be purchased under the program ⁽¹⁾
				(in thousands)
July 1, 2023 to July 31, 2023	-	\$ —	-	\$ 4,621
August 1, 2023 to August 31, 2023	25,726	\$ 6.40	25,726	4,457
September 1, 2023 to September 30, 2023	51,501	\$ 6.32	51,501	4,131
	77,227		77,227	\$ 4,131

(1) In May 2023, the Board of Directors of Harte Hanks approved a share repurchase program to maximize shareholder value with authorization to repurchase \$6.5 million of the Company's Common Stock. After giving effect to these repurchases, we have remaining authority of \$4.1 million to repurchase shares remaining under the program.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
*10.1	Employment Agreement between the Company and Kirk Davis, effective as of June 19, 2023 (filed as Exhibit 10.1 to the Company's Form 8-K dated June 20, 2023)
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Furnished Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Furnished Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data Files because its XBRL tags are embedded within the Inline XBRL Document.
*101.SCH	Inline XBRL Taxonomy Extension Schema Document
*101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
*101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
*101.DEF	Inline XBRL Definition Linkbase Document
*104	Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101)

*Filed or furnished herewith, as applicable.

**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.

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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 13, 2023

Date

/s/ Kirk Davis

Kirk Davis
Chief Executive Officer

November 13, 2023

Date

/s/ David Garrison

David Garrison
Interim Chief Financial Officer

Exhibit 31.1

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

I, Kirk Davis, Chief Executive 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 13, 2023

Date

/s/ Kirk Davis

Kirk Davis
Chief Executive Officer

Exhibit 31.2

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

I, David Garrison, Interim 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 13, 2023

Date

/s/ David Garrison

David Garrison

Interim Chief Financial Officer

Exhibit 32.1

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

I, Kirk Davis, Chief Executive Officer of Harte Hanks, Inc. (the "Company"), hereby certify that the accompanying report on Form 10-Q for the quarter ended September 30, 2023 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 13, 2023

Date

/s/ Kirk Davis

Kirk Davis

Chief Executive Officer

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

Exhibit 32.2

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

I, David Garrison, Interim 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, 2023 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 13, 2023

Date

/s/ David Garrison

David Garrison

Interim Chief Financial Officer

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