

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended September 30, 2018

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: 001-36788

**EXELA TECHNOLOGIES, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State of or other Jurisdiction  
Incorporation or Organization)

**2701 E. Grauwlyer Rd.**  
**Irving, TX**  
(Address of Principal Executive  
Offices)

**47-1347291**  
(I.R.S. Employer  
Identification No.)

**75061**  
(Zip Code)

Registrant's Telephone Number, Including Area Code: **(844) 935-2832**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value \$0.0001 per share	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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  Accelerated Filer  Non-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 whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 5, 2018, the registrant had 151,648,643 shares of Common Stock outstanding.



**Exela Technologies, Inc.**

**Form 10-Q**

**For the quarterly period ended September 30, 2018**

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**Exela Technologies, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**As of September 30, 2018 and December 31, 2017**  
*(in thousands of United States dollars except share and per share amounts)*

	September 30, 2018 (Unaudited)	December 31, 2017
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 40,692	\$ 39,000
Restricted cash	8,955	42,489
Accounts receivable, net of allowance for doubtful accounts of \$4,427 and \$3,725, respectively	253,986	229,704
Inventories, net	16,122	11,922
Prepaid expenses and other current assets	26,933	24,596
<b>Total current assets</b>	<b>346,688</b>	<b>347,711</b>
Property, plant and equipment, net	131,156	132,908
Goodwill	749,762	747,325
Intangible assets, net	398,280	464,984
Deferred income tax assets	14,810	9,019
Other noncurrent assets	21,650	12,891
<b>Total assets</b>	<b>\$ 1,662,346</b>	<b>\$ 1,714,838</b>
<b>Liabilities and Stockholders' Deficit</b>		
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 90,673	\$ 81,263
Related party payables	10,756	14,445
Income tax payable	5,422	3,612
Accrued liabilities	41,397	49,383
Accrued compensation and benefits	54,975	46,925
Accrued interest	23,845	55,102
Customer deposits	39,419	31,656
Deferred revenue	18,084	12,709
Obligation for claim payment	52,889	42,489
Current portion of capital lease obligations	15,926	15,611
Current portion of long-term debt	20,062	20,565
<b>Total current liabilities</b>	<b>373,448</b>	<b>373,760</b>
Long-term debt, net of current maturities	1,307,884	1,276,094
Capital lease obligations, net of current maturities	22,945	25,958
Pension liability	30,376	25,496
Deferred income tax liabilities	2,115	5,362
Long-term income tax liability	3,470	3,470
Other long-term liabilities	15,307	14,704
<b>Total liabilities</b>	<b>\$ 1,755,545</b>	<b>\$ 1,724,844</b>
Commitments and Contingencies (Note 9)		
<b>Stockholders' deficit</b>		
Common stock, par value of \$0.0001 per share; 1,600,000,000 shares authorized; 152,692,140 shares issued and 151,648,643 outstanding at September 30, 2018 and 150,578,451 shares issued and 150,529,151 outstanding at December 31, 2017	\$ 15	\$ 15
Preferred stock, par value of \$0.0001 per share; 20,000,000 shares authorized; 4,569,233 shares issued and outstanding at September 30, 2018 and 6,194,233 shares issued and outstanding at December 31, 2017	1	1
Additional paid in capital	482,018	482,018
Less: common stock held in treasury, at cost; 1,043,497 shares at September 30, 2018 and 49,300 shares at December 31, 2017	(5,148)	(249)
Equity based compensation	38,601	34,085
Accumulated deficit	(594,162)	(514,628)
<b>Accumulated other comprehensive loss:</b>		
Foreign currency translation adjustment	(3,833)	(194)
Unrealized pension actuarial losses, net of tax	(10,691)	(11,054)
Total accumulated other comprehensive loss	(14,524)	(11,248)
<b>Total stockholders' deficit</b>	<b>(93,199)</b>	<b>(10,006)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 1,662,346</b>	<b>\$ 1,714,838</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Exela Technologies, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
**For the Three and Nine Months ended September 30, 2018 and 2017**  
*(in thousands of United States dollars except share and per share amounts)*  
(Unaudited)

	<b>Three Months ended September 30,</b>		<b>Nine Months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Revenue	\$ 383,030	\$ 338,393	\$ 1,186,579	\$ 766,035
Cost of revenue (exclusive of depreciation and amortization)	295,936	255,116	903,682	539,242
Selling, general and administrative expenses	44,913	102,048	137,231	172,626
Depreciation and amortization	35,041	28,052	109,428	70,779
Related party expense	759	26,892	3,267	31,733
<b>Operating income (loss)</b>	<b>6,381</b>	<b>(73,715)</b>	<b>32,971</b>	<b>(48,345)</b>
<b>Other expense (income), net:</b>				
Interest expense, net	38,339	37,652	114,883	91,740
Loss on extinguishment of debt	1,067	35,512	1,067	35,512
Sundry expense (income), net	(2,571)	563	(4,961)	2,960
Other income, net	(781)	—	(4,813)	—
<b>Net loss before income taxes</b>	<b>(29,673)</b>	<b>(147,442)</b>	<b>(73,205)</b>	<b>(178,557)</b>
Income tax benefit (expense)	733	37,002	(4,911)	32,924
<b>Net loss</b>	<b>(28,940)</b>	<b>(110,440)</b>	<b>(78,116)</b>	<b>(145,633)</b>
Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature	—	(16,375)	—	(16,375)
Cumulative dividends for Series A Preferred Stock	(914)	(1,225)	(2,742)	(1,225)
<b>Net loss attributable to common stockholders</b>	<b>\$ (29,854)</b>	<b>\$ (128,040)</b>	<b>\$ (80,858)</b>	<b>\$ (163,233)</b>
Net loss per share - basic and diluted	\$ (0.20)	\$ (2.08)	\$ (0.53)	\$ (3.98)

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Exela Technologies, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Comprehensive Loss**  
**For the Three and Nine Months ended September 30, 2018 and 2017**  
*(in thousands of United States dollars except share and per share amounts)*  
(Unaudited)

	<u>Three Months ended September 30,</u>		<u>Nine Months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net loss	\$ (28,940)	\$ (110,440)	\$ (78,116)	\$ (145,633)
<b>Other comprehensive income (loss), net of tax:</b>				
Foreign currency translation adjustments	(2,492)	233	(3,639)	1,256
Unrealized pension actuarial gains (losses), net of tax	140	(536)	363	(1,500)
Comprehensive loss	<u>\$ (31,292)</u>	<u>\$ (110,743)</u>	<u>\$ (81,392)</u>	<u>\$ (145,877)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Exela Technologies, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders' Deficit**  
**For the Nine Months ended September 30, 2018 and 2017**  
*(in thousands of United States dollars except share and per share amounts)*  
(Unaudited)

	Common Stock		Preferred Stock		Treasury Stock		Additional Paid-in Capital	Equity-based Compensation	Accumulated Other Comprehensive Income (Loss)		Accumulated Deficit	Total Stockholders' Deficit
									Foreign Currency	Unrealized Pension		
	Shares	Amount	Shares	Amount	Shares	Amount			Translation Adjustment	Actuarial Losses, net of tax		
Balances at December 31, 2016, effect of reverse acquisition (refer to Note 4)	64,024,557	\$ 6	—	\$ —	—	\$ —	(57,395)	\$ 27,342	\$ (3,547)	\$ (12,339)	\$ (293,968)	\$ (339,901)
Net loss January 1 to September 30, 2017											(145,633)	(145,633)
Equity-based compensation								4,446				4,446
Foreign currency translation adjustment									1,256			1,256
Net realized pension actuarial gains, net of tax										(1,500)		(1,500)
Merger recapitalization	16,575,443	2					20,546					20,548
Shares issued to acquire Novitex (refer to Note 3)	30,600,000	3					244,797					244,800
Issuance/Conversion of Quinpario shares	12,093,331	1					22,358					22,359
Sale of common shares at July 12, 2017	18,757,942	3					130,860					130,863
Issuance of Series A Preferred Stock			9,194,233	1			73,553					73,554
Shares issued for advisory services and underwriting fees	3,609,375						28,573					28,573
Conversion of Series A Preferred Stock to common shares	3,667,803		(3,000,000)									—
Shares issued for HandsOn Global Management contract termination fee	1,250,000						10,000					10,000
Equity issuance costs							(7,649)					(7,649)
Adjustment for beneficial conversion feature of Series A preferred stock (refer to Note 2)							16,375				(16,375)	—
Balances at September 30, 2017	150,578,451	\$ 15	6,194,233	\$ 1	—	\$ —	\$ 482,018	\$ 31,788	\$ (2,291)	\$ (13,839)	\$ (455,976)	\$ 41,716

	Common Stock		Preferred Stock		Treasury Stock		Additional Paid-in Capital	Equity-based Compensation	Accumulated Other Comprehensive Income (Loss)		Accumulated Deficit	Total Stockholders' Deficit
									Foreign Currency	Unrealized Pension		
	Shares	Amount	Shares	Amount	Shares	Amount			Translation Adjustment	Pension Actuarial Losses, net of tax		
Balances at December 31, 2017	150,529,151	\$ 15	6,194,233	\$ 1	49,300	\$ (249)	\$ 482,018	\$ 34,085	\$ (194)	\$ (11,054)	\$ (514,628)	\$ (10,006)
Implementation of ASU 2014-09 (Note 2)											(1,418)	(1,418)
Net loss January 1 to September 30, 2018											(78,116)	(78,116)
Equity-based compensation								4,260				4,260
Foreign currency translation adjustment									(3,639)			(3,639)
Net realized pension actuarial gains, net of tax										363		363
Stock options exercised	126,922							256				256
Preferred shares converted to common	1,986,767		(1,625,000)		994,197	(4,899)						—
Shares Repurchased	(994,197)											(4,899)
Balances at September 30, 2018	151,648,643	\$ 15	4,569,233	\$ 1	1,043,497	\$ (5,148)	\$ 482,018	\$ 38,601	\$ (3,833)	\$ (10,691)	\$ (594,162)	\$ (93,199)

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Exela Technologies, Inc. and Subsidiaries**  
**Condensed Consolidated Statement of Cash Flows**  
*(in thousands of United States dollars except share and per share amounts)*  
(Unaudited)

	<b>Nine Months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (78,116)	\$ (145,633)
Adjustments to reconcile net loss		
Depreciation and amortization	109,428	70,779
Fees paid in stock	—	23,875
HGM Contract Termination Fee paid in stock	—	10,000
Original issue discount and debt issuance cost amortization	8,062	9,684
Provision (recovery) for doubtful accounts	2,470	451
Deferred income tax benefit	(3,689)	(37,186)
Share-based compensation expense	4,516	4,446
Foreign currency remeasurement	(2,040)	777
Gain on sale of Meridian	—	(588)
Loss on sale of assets	1,835	508
Fair value adjustment for interest rate swap	(5,456)	—
Change in operating assets and liabilities, net of effect from acquisitions		
Accounts receivable	(6,374)	(2,784)
Prepaid expenses and other assets	(5,770)	189
Accounts payable and accrued liabilities	(23,457)	48,745(1)
Related party payables	(3,689)	4,936
<b>Net cash used in operating activities</b>	<b>(2,280)</b>	<b>(11,801)(1)</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(14,077)	(7,001)
Additions to internally developed software	(3,080)	(6,348)
Additions to outsourcing contracts	(5,427)	(8,574)
Proceeds from sale of Meridian	—	4,582
Cash acquired in Quinpario reverse merger	—	91
Cash paid in acquisition, net of cash received	(6,513)	(423,428)
Proceeds on sale of assets	1,095	11
<b>Net cash used in investing activities</b>	<b>(28,002)</b>	<b>(440,667)</b>
<b>Cash flows from financing activities</b>		
Change in bank overdraft	—	(210)
Loss on extinguishment of debt	1,067	35,512(2)
Proceeds from issuance of stock	—	231,448
Repurchases of common stock	(4,899)	—
Proceeds from financing obligations	3,068	3,040
Contribution from shareholders	—	20,548
Proceeds from credit facility	30,000	1,320,500
Retirement of previous credit facilities	—	(1,055,736)
Cash paid for debt issuance costs and debt discounts	(1,094)	(39,837)
Cash paid for equity issue costs	(7,500)	(149)
Borrowings from revolver and swing-line loan	30,000	72,600
Repayments from revolver and swing line loan	(30,000)	(72,500)
Principal payments on long-term obligations	(21,647)	(32,647)
<b>Net cash provided by (used in) financing activities</b>	<b>(1,005)</b>	<b>482,569</b>
Effect of exchange rates on cash	(554)	335
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(31,842)</b>	<b>30,436(1)</b>
Cash, restricted cash, and cash equivalents		
Beginning of period	81,489	34,253(1)
End of period	<u>\$ 49,647</u>	<u>\$ 64,689(1)</u>
<b>Supplemental cash flow data:</b>		
Income tax payments, net of refunds received	\$ 5,296	\$ 2,673
Interest paid	136,396	60,347
<b>Noncash investing and financing activities:</b>		
Assets acquired through capital lease arrangements	9,318	2,080
Leasehold improvements funded by lessor	1,565	74
Issuance of common stock as consideration for Novitex	—	244,800
Accrued capital expenditures	1,994	3,512
Accretion of dividend equivalents	—	16,375

Note: Amounts may not foot due to rounding.

(1) Balances for these items differ from previously reported balances due to the adoption of ASU no. 2016-18, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230)*, see Note 2.



- (2) Exela reclassified 'Loss on extinguishment of debt' from operating to financing activities due to the adoption of ASU no. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, see Note 2.

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Exela Technologies, Inc. and Subsidiaries**  
**Notes to the Condensed Consolidated Financial Statements**  
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*  
(Unaudited)

**1. General**

These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the year ended December 31, 2017 included in the Exela Technologies, Inc. (the “Company,” “Exela,” “we,” “our” or “us”) annual report on Form 10-K for such period.

The accompanying condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America (“GAAP”) and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission (“SEC”) Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These accounting principles require us to use estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from our estimates.

The condensed consolidated financial statements are unaudited, but in our opinion include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim period. The interim financial results are not necessarily indicative of results that may be expected for any other interim period or the fiscal year.

**Net Loss per Share**

Earnings per share (“EPS”) is computed by dividing net loss available to holders of the Company’s Common Stock by the weighted average number of shares of Common Stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, using the more dilutive of the two-class method or if-converted method in periods of earnings. The two-class method is an earnings allocation method that determines earnings per share for Common Stock and participating securities. As the Company experienced net losses for the periods presented, the impact of the Company’s Series A Convertible Preferred Stock (“Series A Preferred Stock”) was calculated based on the if-converted method. Diluted EPS excludes all dilutive potential of shares of Common Stock if their effect is anti-dilutive.

For the three and nine months ended September 30, 2018, outstanding shares of the Series A Preferred Stock, if converted would have resulted in an additional 5,586,344 shares of Common Stock outstanding, but were not included in the computation of diluted loss per share as their effects were anti-dilutive.

The Company was originally incorporated July 12, 2017 as a special purpose acquisition company under the name Quinpario Acquisition Corp 2 (“Quinpario”). The Company has not included the effect of 35,000,000 warrants sold in the Quinpario Initial Public Offering (“IPO”) in the calculation of net income (loss) per share. Warrants are considered anti-dilutive and excluded when the exercise price exceeds the average market value of the Company’s Common Stock price during the applicable period.

	<u>Three Months ended September 30,</u>		<u>Nine Months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net loss attributable to common stockholders (A)	\$ (29,854)	\$ (128,040)	\$ (80,858)	\$ (163,233)
Weighted average common shares outstanding - basic and diluted (B)	151,663,670	61,584,175	152,010,290	41,018,724
<b>Loss Per Share:</b>				
Basic and diluted (A/B)	\$ (0.20)	\$ (2.08)	\$ (0.53)	\$ (3.98)

**Exela Technologies, Inc. and Subsidiaries**  
**Notes to the Condensed Consolidated Financial Statements**  
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*  
(Unaudited)

## 2. Recently Adopted Accounting Pronouncements

Effective January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) no. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. Under ASU 2014-09, revenue is recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this standard using the modified retrospective approach applied to those contracts that were not completed as of January 1, 2018. The results for the reporting period beginning after January 1, 2018 are presented in accordance with the new standard, although historical information has not been restated and continues to be reported under the accounting standards and policies in effect for those periods. The adoption of ASC 606 did not have a material impact on the Company’s financial position, results of operations and cash flows as of or for the period ended September 30, 2018, and we expect the impact of the adoption of the new standard will be immaterial to our results of operations on an ongoing basis. The cumulative effect of accounting change recognized was \$1.4 million recorded as an increase to beginning balance of accumulated deficit, and a corresponding reduction to Accounts Receivable, net. See Note 3 for additional disclosure.

Effective January 1, 2018, the Company adopted ASU no. 2016-15, *(Topic 230): Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, which adds or clarifies guidance on the presentation and classification of eight specific types of cash receipts and cash payments in the statement of cash flows such as debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees, with the intent of reducing diversity in practice. We applied the guidance retrospectively to all periods presented. Exela reclassified a loss on extinguishment of debt from operating activities to financing activities in the third quarter of 2017 in the currently presented financial statements and the to be filed annual financial statements ended December 31, 2018. The adoption had no impact on the Company’s financial position, results of operations, and cash flows for the quarter ended September 30, 2018.

Effective January 1, 2018, the Company adopted ASU no. 2016-18, *(Topic 230): Restricted Cash. Statement of Cash Flows: Restricted Cash*. The ASU addresses diversity in practice that exists in the classification and presentation of changes in restricted cash and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. We applied the guidance retrospectively to all periods presented. As a result of adopting the ASU no. 2016-18, restricted cash is included in the balances of restricted cash, cash and cash equivalents presented in the Statement of Cash Flows for the nine months ended September 30, 2018 and 2017. Adopting the standard increased the net change in cash and cash equivalents, which is reflected within operating cash flows, by \$11.4 million for the nine months ended September 30, 2017. Total Cash and cash equivalents for the Beginning of period and End of period September 30, 2017 increased \$25.9 million and \$37.3 million due to the inclusion of restricted cash.

Effective January 1, 2018, the Company adopted ASU no. 2017-07, *(Topic 715): Compensation Retirement Benefit; Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments to this ASU require the service cost component of net periodic benefit cost be reported in the same income statement line or lines as other compensation costs for employees. The other components of net periodic benefit cost are required to be reported separately from service costs and outside a subtotal of income from operations. The new standard requires retrospective application and allows a practical expedient that permits an employer to use the amounts disclosed in its pension plan footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation. Adoption of the standard resulted in only the service cost being recorded to Cost of revenue; see Note 8 for the related impact.

**Exela Technologies, Inc. and Subsidiaries**  
**Notes to the Condensed Consolidated Financial Statements**  
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*  
(Unaudited)

**Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued ASU no. 2016-02, *Leases (842)*. This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Since the issuance of the original standard, the FASB has issued a subsequent update that provides a practical expedient for land easements (ASU 2018-01). The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years and early application is permitted. The Company has a significant amount of facilities and equipment leases and is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In June 2016, the FASB issued ASU no. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to replace the incurred loss impairment methodology under current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles Goodwill and Other (Topic 350)*. Current guidance requires an entity that has not elected the private company alternative for goodwill to perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the entity performs Step 2 and compares the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. To address concerns over the cost and complexity of the two-step goodwill impairment test, the amendments in this Update remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. Part I of this ASU addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this ASU addresses the difficulty of navigating Topic 480, *Distinguishing Liabilities from Equity*,

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because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815); Targeted Improvements to Accounting for Hedging Activities*. The amendments in this ASU better align the risk management activities and financial reporting for these hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles, Goodwill, and Other - Internal Use Software (Subtopic 350-40): Customer's accounting for implementation costs incurred in a Cloud Computing Arrangement that is a service contract*. The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which includes reasonably certain renewals. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

### **3. Significant Accounting Policies**

The information presented below supplements the Significant Accounting Policies information presented in our 2017 Form 10-K, including Revenue Recognition for the adoption of ASC 606, which became effective January 1, 2018. See our 2017 Form 10-K for a description of our significant accounting policies in effect prior to the adoption of the new accounting standard.

#### **Revenue Recognition**

We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily relating to the provision of business and transaction processing services within each of our segments. We do not have any significant extended payment terms, as payment is received shortly after goods are delivered or services are provided.

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**Nature of Services**

Our primary performance obligations are to stand ready to provide various forms of business processing services, consisting of a series of distinct services that are substantially the same and have the same pattern of transfer over time, and accordingly are combined into a single performance obligation. Our promise to our customers is typically to perform an unknown or unspecified quantity of tasks and the consideration received is contingent upon the customers' use (i.e., number of transactions processed, requests fulfilled, etc.); as such, the total transaction price is variable. We allocate the variable fees to the single performance obligation charged to the distinct service period in which we have the contractual right to bill under the contract.

**Disaggregation of Revenues**

The following tables disaggregate revenue from contracts by geographic region and by segment for the three and nine months ended September 30, 2018, and 2017:

	Three months ended September 30,					
	2018			2017		
	ITPS	HS	LLPS	ITPS	HS	LLPS
United States	\$ 248,055	\$ 56,776	\$ 18,941	\$ 223,555	\$ 56,405	\$ 21,969
Europe	52,602	—	—	30,505	—	—
Other	6,656	—	—	5,959	—	—
<b>Total</b>	<b>\$ 307,313</b>	<b>\$ 56,776</b>	<b>\$ 18,941</b>	<b>\$ 260,019</b>	<b>\$ 56,405</b>	<b>\$ 21,969</b>

  

	Nine months ended September 30,					
	2018			2017		
	ITPS	HS	LLPS	ITPS	HS	LLPS
United States	\$ 782,870	\$ 171,722	\$ 65,476	\$ 427,675	\$ 173,548	\$ 66,930
Europe	146,242	—	—	89,736	—	—
Other	20,269	—	—	8,146	—	—
<b>Total</b>	<b>\$ 949,381</b>	<b>\$ 171,722</b>	<b>\$ 65,476</b>	<b>\$ 525,557</b>	<b>\$ 173,548</b>	<b>\$ 66,930</b>

**Contract Balances**

The following table presents contract assets and contract liabilities recognized at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Accounts receivable, net	\$ 253,986	\$ 229,704
Deferred revenues	18,322	13,717
Costs to obtain and fulfill a contract	19,902	22,929
Customer deposits	39,419	31,656

Accounts receivable, net includes \$37.7 million and \$27.9 million as of September 30, 2018 and December 31, 2017, respectively, representing amounts not billed to customers. We have accrued the unbilled receivables for work performed in accordance with the terms of contracts with customers.

Deferred revenues relate to payments received in advance of performance under a contract. A significant portion of this balance relates to maintenance contracts or other service contracts where we received payments for upfront conversions or implementation activities which do not transfer a service to the customer but rather are used in fulfilling the related performance obligations that transfer over time. The advance consideration received from customers is deferred over the contract term. We recognized revenue of \$12.1 million during the nine months ended September 30, 2018 that had been deferred as of December 31, 2017.

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Costs incurred to obtain and fulfill contracts are deferred and expensed on a straight-line basis over the estimated benefit period. We recognized \$7.3 million of amortization for these costs in the first nine months of 2018 within depreciation and amortization expense. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and can be separated into two principal categories: contract commissions and transition/set-up costs. Examples of such capitalized costs include hourly labor and related fringe benefits and travel costs. Applying the practical expedient in ASC 340-40-25-4, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in Selling, general and administrative expenses. The effect of applying this practical expedient was not material.

Customer deposits consist primarily of amounts received from customers in advance for postage. The majority of the amounts recorded as of December 31, 2017 were used to pay for postage with the corresponding postage revenue being recognized during the nine months ended September 30, 2018.

### ***Performance Obligations***

At the inception of each contract, we assess the goods and services promised in our contracts and identify each distinct performance obligation. The majority of our contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts. For the majority of our business and transaction processing service contracts, revenues are recognized as services are provided based on an appropriate input or output method, typically based on the related labor or transactional volumes.

Certain of our contracts have multiple performance obligations, including contracts that combine software implementation services with post-implementation customer support. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we estimate our expected costs of satisfying a performance obligation and add an appropriate margin for that distinct good or service. We also use the adjusted market approach whereby we estimate the price that customers in the market would be willing to pay. In assessing whether to allocate variable consideration to a specific part of the contract, we consider the nature of the variable payment and whether it relates specifically to its efforts to satisfy a specific part of the contract. Certain of our software implementation performance obligations are satisfied at a point in time, typically when customer acceptance is obtained.

When evaluating the transaction price, we analyze, on a contract-by-contract basis, all applicable variable consideration. The nature of our contracts give rise to variable consideration, including volume discounts, contract penalties, and other similar items that generally decrease the transaction price. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We do not anticipate significant changes to our estimates of variable consideration.

We include reimbursements from customers, such as postage costs, in revenue, while the related costs are included in cost of revenue.

### ***Transaction Price Allocated to the Remaining Performance Obligations***

In accordance with optional exemptions available under ASC 606, we did not disclose the value of unsatisfied performance obligations for (1) contracts with an original expected length of one year or less, and (2) contracts for which variable consideration relates entirely to an unsatisfied performance obligation, which comprise the majority of our contracts. We have certain non-cancellable contracts where we receive a fixed monthly fee in exchange for a series of distinct services that are substantially the same

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and have the same pattern of transfer over time, with the corresponding remaining performance obligations as of September 30, 2018 in each of the future periods below:

**Estimated Remaining Fixed Consideration for Unsatisfied  
Performance Obligations**

2018	\$	11,894
2019		35,726
2020		19,939
2021		11,385
2022		5,556
2023 and thereafter		2,299
Total	\$	86,799

#### 4. Business Combinations and Acquisitions

##### Novitex

On July 12, 2017, the Company consummated its business combination with SourceHOV Holdings, Inc. (“SourceHOV”) and Novitex Holdings, Inc. (“Novitex”, the “Novitex Business Combination”) pursuant to the Business Combination Agreement and Consent, Waiver and Amendment to the Novitex Business Combination Agreement, dated February 21, 2017 and June 15, 2017. In connection with the Novitex Business Combination, the Company acquired debt facilities and issued notes totaling \$1.4 billion (refer to Note 6 — Long Term Debt and Credit Facilities). Proceeds from the acquired debt were used to refinance the existing debt of SourceHOV, settle the outstanding debt of Novitex, and pay fees and expenses incurred in connection with the Novitex Business Combination. Immediately following the Novitex Business Combination, there were 146,910,648 shares of common stock, 9,194,233 shares of Series A Preferred Stock, and 35,000,000 warrants outstanding.

Under ASC 805, *Business Combinations*, SourceHOV was deemed the accounting acquirer based on the following predominant factors: it has the largest portion of voting rights in the Company, the Board and Management has more individuals coming from SourceHOV than either Quinpario or Novitex, SourceHOV was the largest entity by revenue and by assets, and the headquarters was moved to the SourceHOV headquarters location. The Company acquired 100% of the equity of Novitex pursuant to the Business Combination Agreement by issuing 30,600,000 shares of common stock of Exela to Novitex Parent, L.P.; the sole stockholder of Novitex Holdings, Inc. Total value of equity for the transaction was \$244.8 million. Additionally, as noted, the Company used proceeds from acquired debt to settle the outstanding debt of Novitex in the amount of \$420.5 million, and pay transaction related costs and interest on behalf of Novitex in the amount of \$10.3 million and \$1.0 million, respectively, which was accounted for as part of consideration.

The following table summarizes the consideration paid for Novitex and the fair value of the assets acquired and liabilities assumed at the acquisition date on July 12, 2017:



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<b>Assets Acquired:</b>	
Cash and equivalents	\$ 8,428
Accounts receivable	87,474
Inventory	1,245
Prepaid expenses & other	13,974
Property and equipment, net	60,657
Identifiable intangible assets, net	251,060
Deferred charges and other assets	2,723
Other noncurrent assets	93
Goodwill, excess/deficient purchase price	406,060
<b>Total identifiable assets acquired</b>	<b>\$ 831,714</b>
<b>Liabilities Assumed:</b>	
Accounts payable	\$ (29,444)
Short-term borrowings and current portion of long term debt	(11,335)
Accrued liabilities	(30,432)
Advanced billings and customer deposits	(18,926)
Long term debt	(15,704)
Deferred taxes	(46,991)
Other liabilities	(2,226)
<b>Total liabilities assumed</b>	<b>\$ (155,058)</b>
<b>Total Consideration</b>	<b>\$ 676,656</b>

The identifiable intangible assets include customer relationships, non-compete agreements, internally developed software, and trademarks and trade names. Customer relationships and non-compete agreements were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. Trademarks and trade names were valued using the Income Approach, specifically the Relief-from-Royalty method. Internally developed software was valued based on costs incurred related to Connect Platform. All of these intangibles acquired represent a Level 3 measurement as they are based on unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset or liability at fair value.

	<b>Weighted Average Useful Life (in years)</b>	<b>Fair Value</b>
Trademark and trade name - Novitex	9.5	\$ 18,000
Customer relationships	16.0	230,000
Internally developed software - Connect Platform	5.0	1,710
Non-compete agreements	1.0	1,350
		<b>\$ 251,060</b>

As of the date of the Novitex Business Combination, the weighted-average useful life of total identifiable intangible assets acquired in the Novitex Business Combination, excluding goodwill, was 15.4 years.

Through the acquisition of Novitex, we continue to pursue revenue synergies, leverage brand awareness, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. The Company also anticipates continued opportunity for growth through the ability to leverage additional future services and capabilities. Our anticipation of synergies and leveraging existing brand awareness, among other factors, contributed to a purchase price in excess of the estimated fair value of Novitex's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. Approximately \$14.0 million of the

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goodwill recorded was tax deductible, which was carried over from the tax basis of the seller. Since the acquisition date of July 12, 2017, \$292.1 million of revenue and \$17.5 million of net loss were included in our consolidated revenues and net loss, respectively, for Novitex for the year ended December 31, 2017. For the three and nine months ended September 30, 2018 Exela recognized \$162.6 million and \$512.7 million in revenue related to Novitex in the Consolidated Statement of Operations. These results are included in the ITPS segment.

*Transaction Costs*

The Company incurred approximately \$60.0 million in advisory, legal, accounting and management fees in conjunction with the Novitex Business Combination as of December 31, 2017, excluding contract cancellation and advising fees to HandsOn Global Management (“HGM”) of \$23.0 million. Additionally, \$7.6 million was incurred related to equity issuance costs and \$40.9 million was incurred in debt issuance costs. No transaction costs were incurred in the nine months ended September 30, 2018.

*Restructuring Charges*

In February 2017, Management performed a strategic review of human resources at Novitex for the purpose of assessing the business need for their employment and for the purpose of quantifying the synergies resulting from the acquisition. As a result, in June 2017, representatives of SourceHOV and HGM Group communicated the termination of certain executives and non-executive Novitex employees. There were no restructuring charges incurred in the nine months ended September 30, 2018 and \$4.7 million were incurred during the nine months ended September 30, 2017.

The Company determined that costs associated with termination benefits should be accounted for separately from the acquisition, as a post combination expense of the combined entity because the expense was incurred for the benefit of the combined entity. In connection with the closing of the Novitex Business Combination in the third quarter of 2017 the Company recorded severance expense in the amount of \$5.3 million related to the impacted executives and \$0.1 million related to other terminations in the statement of operations. Severance expense was \$0.4 million for the nine months ended September 30, 2018.

**Asterion**

On April 10, 2018, Exela completed the acquisition of Asterion International Group (“Asterion,” the “Asterion Business Combination”), a well-established provider of technology driven business process outsourcing, document management and business process automation across Europe. The purchase price was approximately \$19.5 million. The acquisition comes with minimal customer overlap and is strategic to expanding Exela’s European business.

The acquired assets and assumed liabilities of Asterion were recorded at their estimated fair values. The purchase price allocation for Asterion is preliminary for estimates for items such as income taxes and subject to change within the respective measurement period, which will not extend beyond one year from the acquisition date. Measurement period adjustments will be recognized in the reporting period in which the adjustment amounts are determined.

The following table summarizes the consideration paid for Asterion and the preliminary fair value of the assets acquired and liabilities assumed at the acquisition date on April 10, 2018:

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<b>Assets Acquired:</b>	
Cash and cash equivalents	\$ 15,323
Accounts receivable	18,123
Other current assets	2,282
Inventories, net	1,137
Property, plant, and equipment, net	4,747
Deferred income tax assets	6,317
Other noncurrent assets	522
Intangible assets, net	3,525
Goodwill	1,493
Total identifiable assets acquired	<u>\$ 53,469</u>
<b>Liabilities Assumed:</b>	
Accounts payable	\$ (6,583)
Income tax payable	(5)
Accrued liabilities	(7,718)
Accrued compensation and benefits	(7,079)
Deferred revenue	(880)
Current portion of long term debt	(664)
Current capital lease obligations	(331)
Customer deposits	(462)
Pension liability	(7,134)
Other long-term liabilities	(1,324)
Deferred income tax liabilities	(1,171)
Capital lease obligations, net of current maturities	(650)
Total liabilities assumed	<u>\$ (34,001)</u>
Total Consideration	<u>\$ 19,468</u>

The majority of identifiable intangible assets consisted of customer relationships. Customer relationships were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. This intangible acquired represents a Level 3 measurement as it is based on unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset at fair value.

	<u>Weighted Average Useful Life (in years)</u>		<u>Fair Value</u>
Customer Relationships	9.5	\$	3,516

Through the acquisition of Asterion, we expect to leverage brand awareness, strengthen margins, and expand the existing Asterion sales channels. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Asterion's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. For the three and nine months ended September 30, 2018 Exela recognized \$18.9 million and \$39.8 million in revenue related to Asterion in the Consolidated Statement of Operations.

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## 5. Intangibles Assets and Goodwill

### Intangibles

Intangible assets are stated at cost or acquisition-date fair value less accumulated amortization and consists of the following:

	September 30, 2018		
	Gross Carrying Amount (a)	Accumulated Amortization	Intangible Assets, Net
Customer relationships	\$ 507,950	\$ (176,967)	\$ 330,983
Developed technology	89,053	(85,096)	3,957
Trade names	13,100	(2,326)	10,774
Costs to obtain and fulfill a contract	44,406	(24,504)	19,902
Internally developed software	32,518	(5,343)	27,175
Trademarks	23,379	(17,890)	5,489
Non compete agreements	1,350	(1,350)	—
Intangibles, net	<u>\$ 711,756</u>	<u>\$ (313,476)</u>	<u>\$ 398,280</u>

  

	December 31, 2017		
	Gross Carrying Amount (a)	Accumulated Amortization	Intangible Assets, Net
Customer relationships	\$ 504,643	\$ (135,962)	\$ 368,681
Developed technology	89,076	(77,103)	11,973
Trade names (b)	13,100	—	13,100
Costs to obtain and fulfill a contract	40,456	(17,526)	22,930
Internally developed software	28,254	(2,597)	25,657
Trademarks	23,370	(1,446)	21,924
Non compete agreements	1,350	(631)	719
Intangibles, net	<u>\$ 700,249</u>	<u>\$ (235,265)</u>	<u>\$ 464,984</u>

(a) Amounts include intangible assets acquired in business combinations

(b) The carrying amount of trade names is net of accumulated impairment losses of \$39.3 million recognized in 2017.

### Goodwill

Goodwill by reporting segment consists of the following:

	Goodwill	Additions	Reductions	Currency translation adjustments	Goodwill (a)
ITPS	\$ 159,394	\$ 406,522 <b>(b)</b>	—	\$ 299	\$ 566,215
HC	86,786	—	—	—	86,786
LLPS	127,111	—	(32,787) <b>(c)</b>	—	94,324
Balance as of December 31, 2017	<u>\$ 373,291</u>	<u>\$ 406,522</u>	<u>\$ (32,787)</u>	<u>\$ 299</u>	<u>\$ 747,325</u>
ITPS	566,215	\$ 2,541 <b>(d)</b>	—	\$ (104)	568,652
HC	86,786	—	—	—	86,786
LLPS	94,324	—	—	—	94,324
Balance as of September 30, 2018	<u>\$ 747,325</u>	<u>\$ 2,541</u>	<u>\$ —</u>	<u>\$ (104)</u>	<u>\$ 749,762</u>

(a) The goodwill amount for all periods presented is net of accumulated impairment losses of \$137.9 million.

(b) Addition to goodwill is due to the Novitex Business Combination. Refer to Note 4.

(c) The reduction in goodwill is due to \$30.1 million for impairment recorded in the fourth quarter of 2017 and \$2.7 million for the sale of Meridian Consulting Group, LLC in the first quarter of 2017.

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(d) Addition to goodwill due to the Asterion Business Combination (Refer to Note 4) and an immaterial acquisition in the third quarter.

## 6. Long-Term Debt and Credit Facilities

### Senior Secured Notes

On July 12, 2017, the Company issued \$1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 with an original issue discount (“OID”) of \$22.5 million (the “Notes”). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023.

### Debt Refinancing

Upon the closing of the Novitex Business Combination on July 12, 2017, the \$1,050.7 million outstanding balance of SourceHOV related debt facilities and the \$420.5 million outstanding balance of Novitex debt facilities were paid off using proceeds from the Credit Agreement and issuance of the Notes.

In accordance with ASC 470 — *Debt — Modifications and Extinguishments*, as a result of certain lenders that participated in SourceHOV’s debt structure prior to the refinancing and the Company’s debt structure after the refinancing, it was determined that a portion of the refinancing of SourceHOV’s First lien secured term loan and Second lien secured term loan (“Original Term Loans”) would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The Company incurred \$28.9 million in debt issuance costs related to the new secured term loan, of which \$2.8 million was third party costs. The Company expensed \$1.1 million of costs related to the modified debt and capitalized the remaining \$27.8 million in the third quarter of 2017. The Company wrote off \$30.5 million of the unamortized issuance costs and discounts associated with the retirement of SourceHOV’s credit facilities during the third quarter of 2017. The Company has approximately \$3.3 million and \$3.5 million of remaining unamortized debt issuance costs and debt discounts, respectively, associated with the modified portion of the Original Term Loans that will be amortized over the term of the new term loan, which are presented on the balance sheet as a contra-debt liability. The Company incurred a \$5.0 million prepayment penalty related the Company’s Original Term Loans that was recorded as a loss on extinguishment of debt in the third quarter of 2017.

The proceeds of the new debt financing were also used to pay fees and expenses incurred in connection with the Novitex Business Combination and for general corporate purposes.

### Senior Credit Facilities

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, a (i) \$350.0 million senior secured term loan maturing July 12, 2023 with an OID of \$7.0 million, and (ii) a \$100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. As of September 30, 2018 and December 31, 2017, the Company had outstanding irrevocable letters of credit totaling approximately \$20.6 million and \$20.9 million, respectively, under the senior secured revolving facility.

The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior

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secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity.

#### **Term Loan Repricing**

On July 13, 2018, Exela successfully repriced the \$343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing”). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the “First Amendment”), dated as of July 13, 2018, by and among the Company’s subsidiaries Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each “Subsidiary Loan Party” listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed \$343.4 million of refinancing term loans (the “Repricing Term Loans”) to refinance the Company’s existing senior secured term loans.

In accordance with ASC 470 — *Debt — Modifications and Extinguishments*, as a result of certain lenders that participated in Exela’s debt structure prior to the Term Loan Repricing and the Company’s debt structure after the refinancing, it was determined that a portion of the refinancing of Exela’s senior secured credit facilities would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The company incurred \$1.0 million in new debt issuance costs related to the refinancing, of which \$1.0 million was expensed pursuant to modification accounting. The proportion of debt that was extinguished resulted in a write off of previously recognized debt issue costs of \$0.1 million. Additionally, for the new lenders who exceeded the 10% test, less than \$0.1 million was recorded as additional debt issue costs. All unamortized costs and discounts will be amortized over the life of the new term loan using the effective interest rate of the term loan.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

#### **Incremental Term Loan**

On July 13, 2018, the Company successfully borrowed an additional \$30.0 million pursuant to incremental term loans (the “Incremental Term Loans”) under the First Amendment. The proceeds of the Incremental Term Loans may be used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the Incremental Term Loans are the same as those for the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the “Term Loans”) at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary “breakage” costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a “repricing event” applicable to the Term Loans

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resulting in a lower yield occurring at any time during the first six months after July 13, 2018 will be accompanied by a 1.00% prepayment premium or fee, as applicable.

Other than as described above, the terms, conditions and covenants applicable to the Repricing Term Loans and the Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Existing Term Loans under the First Lien Credit. The Repricing and issuance of the Incremental Term Loans resulted in a partial debt extinguishment, for which Exela recognized \$1.1 million in debt extinguishment costs in the third quarter of 2018.

### Long-Term Debt Outstanding

As of September 30, 2018 and December 31, 2017, the following long-term debt instruments were outstanding:

	<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Other (a)	\$ 17,906	\$ 17,534
First lien credit agreement (b)	336,684	308,825
Senior secured notes (c)	973,356	970,300
Total debt	1,327,946	1,296,659
Less: Current portion of long-term debt	(20,062)	(20,565)
Long-term debt, net of current maturities	<u>\$ 1,307,884</u>	<u>\$ 1,276,094</u>

- (a) Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company.
- (b) Net of unamortized original issue discount and debt issuance costs of \$8.7 million and \$25.7 million as of September 30, 2018 and \$9.9 million and \$29.1 million as of December 31, 2017.
- (c) Net of unamortized debt discount and debt issuance costs of \$19.0 million and \$7.6 million as of September 30, 2018 and \$21.2 million and \$8.5 million as of December 31, 2017.

### 7. Income Taxes

The Company applies an estimated annual effective tax rate ("ETR") approach for calculating a tax provision for interim periods, as required under U.S. GAAP. The Company recorded an income tax benefit of \$0.7 million and \$37.0 million for the three months ended September 30, 2018 and 2017, respectively. The Company recorded an income tax expense of \$4.9 million and an income tax benefit of \$32.9 million for the nine months ended September 30, 2018 and 2017, respectively.

The Company's ETR of 2.5% and (6.7%) for the three and nine months ended September 30, 2018, respectively, differed from the expected U.S. statutory tax rate of 21.0% and was primarily impacted by permanent tax adjustments, state and local current expense, foreign operations, and valuation allowances, including valuation allowances on a portion of the Company's deferred tax assets on U.S. disallowed interest expense carryforward's created by the provisions of The Tax Cuts and Jobs Act ("TCJA").

The Company's ETR of 25.1% and 18.4% for the three and nine months ended September 30, 2017, respectively, differed from the U.S. statutory tax rate of 35.0%, and was primarily impacted by permanent tax adjustments (primarily transaction costs), Meridian goodwill impairment, foreign operations, Indian prior year tax expense true-up, and a valuation allowance against certain domestic deferred tax assets that are not more-likely-than-not to be realized.

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The TCJA subjects a US shareholder to tax on Global Intangible Low-taxed Income (“GILTI”) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for GILTI, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Our accounting policy election with respect to the new GILTI Tax rules will depend, in part, on analyzing our global income to determine whether we can reasonably estimate the tax impact. We are interpreting the provisions included in the recently proposed GILTI regulations issued by the U.S. Treasury Department which may impact our GILTI calculation. Given the complexity of the GILTI provisions, we are still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. At September 30, 2018, because we are still evaluating the GILTI provisions and our analysis of future taxable income that is subject to GILTI, we have included GILTI related to current-year operations only in our annual effective ETR and have not provided additional GILTI on deferred items.

Additionally, on August 1, 2018, the U.S. Treasury Department released proposed regulations covering the one-time transition tax on undistributed foreign earnings, which was enacted as part of the TCJA. We evaluated the issuance of the new guidance to our provisional amounts related to the transition tax that were initially recorded in our overall tax provision for the year ended December 31, 2017 and determined there are no changes to our prior estimates of the one-time transition tax as a result of the proposed regulations. We will continue to refine our provisional estimates for our computations as information is made available.

As of September 30, 2018, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined for the year ended December 31, 2017. The Company’s valuation allowances have increased by approximately \$18.5 million from December 31, 2017 to September 30, 2018 due largely to effects of TCJA relating to interest expense.

During the fourth quarter the Company filed its 2017 U.S. federal income tax return for the year ended December 31, 2017. The impact of the 2017 tax return to provision adjustments included changes in estimates to our previously recognized one-time transition tax on undistributed foreign earnings that resulted in a reduction of our US federal net operating loss carryforwards by \$6.7 million (\$1.4 million tax effected at the newly enacted US federal rate of 21%) and also decreased our federal valuation allowance by the same amount resulting in no net effect to the tax provision. As of September 30, 2018 the Company has not finalized its accounting for the income tax effects of the TCJA and will continue to analyze the impact of the proposed regulations covering the one-time transition tax during the SAB 118 measurement period.

## **8. Employee Benefit Plans**

### **German Pension Plan**

The Company’s subsidiary in Germany provides pension benefits to certain retirees. Employees eligible for participation include all employees who started working for the Company prior to September 30, 1987 and have finished a qualifying period of at least 10 years. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan. The German pension plan is an unfunded plan and therefore has no plan assets.

### **U.K. Pension Plan**

The Company’s subsidiary in the United Kingdom provides pension benefits to certain retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to October 2001. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

### **Tax Effect on Accumulated Other Comprehensive Loss**

As of September 30, 2018 and December 31, 2017, the Company recorded actuarial losses of \$10.7 million and \$11.1 million in accumulated other comprehensive loss on the condensed consolidated balance sheets, respectively, which is net of a deferred tax benefit of \$2.0 million.



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**Pension Expense**

The components of the net periodic benefit cost are as follows:

	Three Months ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Service cost	\$ 27	\$ 2	\$ 56	\$ 6
Interest cost	569	585	1,686	1,708
Expected return on plan assets	(701)	(610)	(2,076)	(1,782)
<b>Amortization:</b>				
Amortization of prior service cost	(34)	(34)	(102)	(99)
Amortization of net (gain) loss	433	529	1,294	1,546
<b>Net periodic benefit cost</b>	<b>\$ 294</b>	<b>\$ 472</b>	<b>\$ 858</b>	<b>\$ 1,379</b>

Upon adopting ASU no. 2017-07 as described in Note 2, the Company now records pension interest cost within Interest expense, net. Expected return on plan assets, amortization of prior service costs, and amortization of net losses are recorded within Other income, net. Service cost is recorded within Cost of revenue.

**Employer Contributions**

The Company's funding of employer contributions is based on governmental requirements and differs from those methods used to recognize pension expense. The Company made contributions of \$2.3 million to its pension plans during the nine months ended September 30, 2018 and 2017. The Company has funded the pension plans with the required contributions for 2018 based on current plan provisions.

**9. Commitments and Contingencies****Appraisal Demand**

On September 21, 2017, former stockholders of SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaeen Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the Novitex Business Combination, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The parties have commenced discovery. Trial is currently scheduled for June 2019. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action. Pursuant to the terms of the Novitex Business Combination Agreement, if such appraisal rights are perfected, a corresponding portion of shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in the Consent, Waiver and Amendment dated June 15, 2017) is repaid. The Company intends to vigorously defend against the Appraisal Action.

**10. Fair Value Measurement****Assets and Liabilities Measured at Fair Value**

The carrying amount of assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of September 30, 2018 and December 31, 2017

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due to the relative short maturity of these instruments. Management estimates the fair values of the secured term loan and secured notes at approximately 101.5% and 106.4% respectively, of the respective principal balance outstanding as of September 30, 2018. The carrying value approximates the fair value for the long-term debt. Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company and as such, the cost incurred would approximate fair value. Property and equipment, intangible assets, capital lease obligations, and goodwill are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the respective asset is written down to its fair value.

The Company determined the fair value of its long-term debt using Level 2 inputs including the recent issue of the debt, the Company's credit rating, and the current risk-free rate. The Company's contingent liabilities related to prior acquisitions are re-measured each period and represent a Level 2 measurement as it is based on using an earn out method based on the agreement terms.

The following table provides the carrying amounts and estimated fair values of the Company's financial instruments as of September 30, 2018 and December 31, 2017:

<u>As of September 30, 2018</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Fair Value Measurements</u>		
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Recurring and nonrecurring assets and liabilities:</b>					
Acquisition contingent liability	\$ 721	721	—	—	721
Long-term debt	1,307,884	1,438,469		1,438,469	
Interest rate swap asset	\$ 6,753	6,753	—	6,753	
<b>As of December 31, 2017</b>					
<b>Recurring and nonrecurring assets and liabilities:</b>					
Acquisition contingent liability	\$ 721	721	—	—	721
Long-term debt	1,276,094	1,308,478		1,308,478	
Interest rate swap asset	\$ 1,297	1,297	—	1,297	

The significant unobservable inputs used in the fair value of the Company's acquisition contingent liability are the discount rate, growth assumptions, and revenue thresholds. Significant increases (decreases) in the discount rate would have resulted in a lower (higher) fair value measurement. Significant increases (decreases) in the forecasted financial information would have resulted in a higher (lower) fair value measurement. For all significant unobservable inputs used in the fair value measurement of the Level 3 liabilities, a change in one of the inputs would not necessarily result in a directionally similar change in the other based on the current level of billings.

The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3 for which a reconciliation is required:

	<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Balance as of Beginning of Period	\$ 721	\$ 721
Payments/Reductions	—	—
Balance as of End of Period	<u>\$ 721</u>	<u>\$ 721</u>

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**11. Stock-Based Compensation**

At closing of the Novitex Business Combination, SourceHOV had 24,535 restricted stock units (“RSUs”) outstanding under its 2013 Long Term Incentive Plan (“2013 Plan”). Simultaneous with the closing of the Novitex Business Combination, the 2013 Plan, as well as all vested and unvested RSUs under the 2013 Plan were assumed by Ex-Sigma, LLC (“ExSigma”), an entity formed by the former SourceHOV equity holders, which is also the Company’s principal stockholder. In accordance with U.S. GAAP, the Company continues to incur compensation expense related to the 9,880 unvested RSUs as of July 12, 2017 on a straight-line basis until fully vested, as the recipients of the RSUs are employees of the Company. Subject to continuous employment and other terms of the 2013 Plan, all remaining unvested RSUs with an initial vesting period of 3 or 4 years will vest in April 2019. As of September 30, 2018 there are 2,675 nonvested shares related to the 2013 Plan with a weighted average remaining contractual life of .58 years and a weighted average aggregate intrinsic value per share of \$1,633.

**Exela 2018 Stock Incentive Plan**

On January 17, 2018, Exela’s 2018 Stock Incentive Plan (the “2018 Plan”) became effective. The 2018 Plan provides for the grant of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, and other stock-based compensation to eligible participants. Under the 2018 Plan, stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying stock at the grant date. The vesting period for each option award is established on the grant date, and the options generally expire 10 years from the grant date. The Company is authorized to issue up to 8,323,764 shares of Common Stock under the 2018 plan.

**Restricted Stock Unit Grants**

Restricted stock awards generally vest ratably over a one to two year period. Shares of restricted stock granted under the 2018 plan are considered issued and outstanding at the date of grant and have the same voting rights as other outstanding common stock. Restricted stock units are subject to forfeiture if employment terminates prior to vesting and are expensed ratably over the vesting period.

A summary of the status of restricted stock units related to the 2018 Plan as of September 30, 2018 is presented as follows:

	Number of Shares	Weighted Average Grant Date Fair Value	Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (\$)
Shares granted	1,020,220	\$ 283.1		
Shares forfeited	—			
Shares vested	(126,923)			
Nonvested at September 30, 2018	893,297	\$ 283.1	1.00	\$ 4,598

**Options**

Options are granted at not less than fair market value on the date of grant and expire no later than ten years after the date of grant. Options granted under the 2018 Plan generally require no less than a two or four year ratably vesting period. Stock option activity in the first nine months of 2018 is summarized in the following table:

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	Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (\$)
Granted	3,570,300	\$ 6.06		
Exercised	—			
Canceled	—			
Expired				
Balance at September 30, 2018	3,570,300	\$ 6.06	3.14	\$ 9,590

As of September 30, 2018, there was approximately \$17.0 million of total unrecognized compensation expense related to non-vested awards for the 2013 Plan and 2018 Plan, which will be recognized over the respective service period.

Stock-based compensation expense is recorded within Selling, general, and administrative expenses. The Company incurred total compensation expense of \$4.5 million and \$1.6 million related to the 2013 Plan and 2018 Plan awards for the three and nine months ended September 30, 2018.

## 12. Stockholders' Equity

The following description summarizes the material terms and provisions of the securities that the Company has authorized.

### Common Stock

The Company is authorized to issue 1,600,000,000 shares of common stock, par value \$0.0001 per share. At September 30, 2018 the Company had 151,648,643 shares of common stock outstanding. Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock, the holders of Exela Common Stock possess all voting power for the election of Exela's directors and all other matters requiring stockholder action and will at all times vote together as one class on all matters submitted to a vote of Exela stockholders. Holders of Exela Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of Exela Common Stock will be entitled to receive such dividends and other distributions, if any, as may be declared from time to time by the board of directors in its discretion out of funds legally available therefor and shall share equally on a per share basis in such dividends and distributions. The holders of the common stock have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock.

### Preferred Stock

The Company is authorized to issue 20,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. At September 30, 2018, the Company had 4,569,233 shares of Series A Preferred Stock outstanding. The par value of Series A Preferred Stock is \$0.0001 per share. Each share of Series A Convertible Preferred Stock will be convertible at the holder's option, at any time after the six-month anniversary and prior to the third anniversary of the issue date, initially into 1.2226 shares of Exela Common Stock.

Holders of the Series A Preferred Stock will be entitled to receive cumulative dividends at a rate per annum of 10% of the Liquidation Preference per share of Series A Preferred Stock, paid or accrued quarterly in arrears. From the issue date until the third anniversary of the issue date, the amount of all accrued but unpaid dividends on the Series A Preferred Stock will be added to the Liquidation Preference without any action by the Company's board of directors. For the three and nine months ended September 30, 2018 this amount was \$0.9 million and \$2.7 million, respectively, as reflected on the Consolidated

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Statement of Operations. The cumulative accrued but unpaid dividends of the Series A Preferred Stock since their inception on July 12, 2017 is \$5.2 million. The per share average of cumulative preferred dividends is 0.6 dollars.

Following the third anniversary of the issue date, dividends on the Series A Preferred Stock will be accrued by adding to the Liquidation Preference or paid in cash, or a combination thereof. In addition, holders of the Series A Preferred Stock will participate in any dividend or distribution of cash or other property paid in respect of the Common Stock pro rata with the holders of the Common Stock (other than certain dividends or distributions that trigger an adjustment to the conversion rate, as described in the Certificate of Designations), as if all shares of Series A Preferred Stock had been converted into Common Stock immediately prior to the date on which such holders of the Common Stock became entitled to such dividend or distribution.

### **Treasury Stock**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires in 24 months. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. We purchased 994,197 shares during the nine months ended September 30, 2018 under the Share Buyback Program at an average share price of \$4.81.

### **Warrants**

At September 30, 2018, there were 34,988,302 warrants outstanding. As part of its IPO, Quinpario had issued 35,000,000 units including one share of common stock and one warrant of which 34,988,302 have been separated from the original unit and 11,698 warrants remain an unseparated part of the originally issued units. The warrants are traded on the OTC Bulletin Board as of September 30, 2018.

Each warrant entitles the holder to purchase one-half of one share of common stock at a price of \$5.75 per half share (\$11.50 per whole share). Warrants may be exercised only for a whole number of shares of common stock. No fractional shares will be issued upon exercise of the warrants. Each warrant is currently exercisable and will expire July 12, 2022 (five years after the completion of the Novitex Business Combination), or earlier upon redemption.

The Company may call the warrants for redemption at a price of \$0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if, and only if, the last sales price of our shares of common stock equals or exceeds \$24.00 per share for any 20 trading days within a 30 trading day period (the "30-day trading period") ending three business days before we send the notice of redemption, and if, and only if, there is a current registration statement in effect with respect to the shares of common stock underlying such warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

## **13. Related-Party Transactions**

### **Leasing Transactions**

Certain operating companies lease their operating facilities from HOV RE, LLC and HOV Services Limited, which are affiliates through common interest held by Ex-Sigma 2 LLC, our largest stockholder.

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The rental expense for these operating leases was \$0.2 million for the three months ended September 30, 2018 and 2017, and \$0.5 million for the nine months ended September 30, 2018 and 2017.

**Consulting Agreement**

The Company receives services from Oakana Holdings, Inc. The Company and Oakana Holdings, Inc. are related through a family relationship between certain shareholders and the president of Oakana Holdings, Inc. The expense recognized for these services was \$0.1 million for the three months ended September 30, 2018. The expense recognized for these services was \$0.1 million for the nine months ended September 30, 2018.

The Company received consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly owned and controlled by Vik Negi, our Executive Vice President Treasury and Business Affairs. The consulting arrangement was established to compensate Mr. Negi for his services to the Company prior to becoming an employee. The expense recognized for these services was \$0.1 million and \$0.4 million for the nine months ended September 30, 2018 and 2017, respectively. This consulting arrangement with Shadow Pond, LLC terminated on April 1, 2018 and Mr. Negi continues to provide services as an employee of the Company. As such, there were no additional expenses for the three months ended September 30, 2018.

**Relationship with HandsOn Global Management**

The Company incurred management fees to HGM, SourceHOV's former owner, of \$3.0 million and \$6.0 million for the three and nine month periods ended September 30, 2017. The management agreement terminated in 2017 and there were no such fees for the three and nine months ended September 30, 2018.

The Company incurred reimbursable travel expenses to HGM of \$0.1 million for the three months ended September 30, 2018, and \$0.2 million and \$0.5 million for the nine months ended September 30, 2018 and 2017.

Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and SourceHOV, the Company incurs marketing fees to Rule 14, LLC, a portfolio company of HGM. Similarly, SourceHOV is party to ten master agreements with entities affiliated with HGM's managed funds, each of which were entered into during 2015 and 2016. Each master agreement provides SourceHOV with free use of technology and includes a reseller arrangement pursuant to which SourceHOV is entitled to sell these services to third parties. Any revenue earned by SourceHOV in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of SourceHOV. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM managed funds. SourceHOV has the license to use and resell such brands, as described therein. We incurred fees relating to these agreements of \$0.2 million and \$0.1 million for the three months ended September 30, 2018 and 2017. We incurred fees relating to these agreements of \$0.6 million and \$0.3 million for the nine months ended September 30, 2018 and 2017, respectively.

**Relationship with HOV Services, Ltd.**

HOV Services, Ltd. provides the Company data capture and technology services. HOV Services, Ltd is an indirect equity holder of Ex-Sigma LLC. The expense recognized for these services was \$0.4 million for the three months ended September 30, 2018 and 2017, and \$1.2 million and \$1.3 million for the nine months ended September 30, 2018 and 2017, respectively. These expenses are included in cost of revenue in the consolidated statements of operations.

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(Unaudited)

**Relationship with Apollo Global Management, LLC**

The Company provides services to and receives services from certain Apollo affiliated companies. Funds managed by Apollo Global Management, LLC have the right to designate two of the Company's directors. On November 18, 2014, the Company's subsidiary, Exela Enterprises Solutions, Inc. ("Novitex Solutions"), entered into a master services agreement with Management Holdings, an indirect wholly owned subsidiary of Apollo. Pursuant to this master services agreement, Novitex Solutions provides Management Holdings printer supplies and maintenance services, including toner maintenance, training, quarterly business review and printer procurement. We recognized revenue of \$0.1 million and \$0.2 million in our consolidated statements of operations from Apollo affiliated companies under this agreement for the three months ended September 30, 2018 and 2017. We recognized revenue of \$0.5 million and \$0.2 million for the nine months ended September 30, 2018 and 2017 in our consolidated statements of operations from Apollo affiliated companies under this agreement.

On January 18, 2017, Novitex Solutions entered into a master purchase and professional services agreement with Caesars Enterprise Services, LLC ("Caesars"). Caesars is controlled by investment funds affiliated with Apollo. Pursuant to this master purchase and professional services agreement, Novitex Solutions provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. We recognized revenue of approximately \$1.1 million and 0.4 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the three months ended September 30, 2018 and 2017. We recognized revenue of \$3.1 million and \$0.4 million for the nine months ended September 30, 2018 and 2017 in our consolidated statements of operations from Caesars under this master purchase and professional services agreement.

On May 5, 2017, Novitex Solutions entered into a master services agreement with ADT LLC. ADT LLC is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions provides ADT LLC with mailroom and onsite mail delivery services at an ADT LLC office location and managed print services, including supply management, equipment maintenance and technical support services. We recognized revenue of \$0.2 million and \$0.4 million in our consolidated statements of operations from ADT LLC under this master services agreement for the three and nine months ended September 30, 2018.

On July 20, 2017, Novitex Solutions entered into a master services agreement with Diamond Resorts Centralized Services Company. Diamond Resorts Centralized Services Company is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions provides commercial print and promotional product procurement services to Diamond Resorts Centralized Services Company, including sourcing, inventory management and fulfillment services. The Company recognized revenue of \$0.7 million and \$4.9 million for the three and nine months ended September 30, 2018 and cost of revenue of \$0.1 million for the nine months ended September 30, 2018 from Diamond Resorts Centralized Services Company under this master services agreement. No cost of revenue was recognized for the three months ended September 30, 2018 under this agreement.

In April 2016, Novitex Solutions entered into a master services agreement with Presidio Networked Solutions Group, LLC ("Presidio Group"), a wholly owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo and with a common Apollo designated director. Pursuant to this master services agreement, Presidio Group provides Novitex Solutions with employees, subcontractors, and/or goods and services. For the three and nine months ended September 30, 2018 there were related party expenses of \$0.2 million and \$0.5 million, respectively, for this service. For the three and nine months ended September 30, 2017 there were related party expenses of \$0.2 million for this service.

**Exela Technologies, Inc. and Subsidiaries**  
**Notes to the Condensed Consolidated Financial Statements**  
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*  
(Unaudited)

**Payable Balances with Affiliates**

Payable balances with affiliates as of September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018	December 31, 2017
HOV Services, Ltd	\$ 411	\$ 286
Rule 14	123	158
HGM	10,080	13,689
Apollo affiliated company	142	312
	<u>\$ 10,756</u>	<u>\$ 14,445</u>

**14. Segment Information**

The Company's operating segments are significant strategic business units that align its products and services with how it manages its business, approach the markets and interacts with its clients. The Company is organized into three segments: ITPS, HS, and LLPS.

**ITPS:** Our ITPS segment provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries.

**HS:** Our HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets.

**LLPS:** Our LLPS segment provides a broad and active array of legal services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters.

The chief operating decision maker reviews operating segment revenue and gross profit. The Company does not allocate selling, general, and administrative expenses, depreciation and amortization, interest expense and sundry, net. The Company manages assets on a total company basis, not by operating segment, and therefore asset information and capital expenditures by operating segments are not presented.

	Three months ended September 30, 2018			Total
	ITPS	HS	LLPS	
Revenue	\$ 307,313	\$ 56,776	\$ 18,941	\$ 383,030
Cost of revenue (exclusive of depreciation and amortization)	246,492	36,919	12,525	295,936
Selling, general and administrative expenses				44,913
Depreciation and amortization				35,041
Related party expense				759
Interest expense, net				38,339
Loss on extinguishment of debt				1,067
Sundry expense, net				(2,571)
Other income, net				(781)
Net loss before income taxes				<u>\$ (29,673)</u>



**Exela Technologies, Inc. and Subsidiaries**  
**Notes to the Condensed Consolidated Financial Statements**  
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*  
(Unaudited)

	Three months ended September 30, 2017			
	ITPS	HS	LLPS	Total
Revenue	\$ 260,019	\$ 56,405	\$ 21,969	\$ 338,393
Cost of revenue (exclusive of depreciation and amortization)	204,602	37,451	13,063	255,116
Selling, general and administrative expenses				102,048
Depreciation and amortization				28,052
Related party expense				26,892
Interest expense, net				37,652
Sundry expense, net				563
Loss on extinguishment of debt				35,512
Net loss before income taxes				<u>\$ (147,442)</u>

	Nine months ended September 30, 2018			
	ITPS	HS	LLPS	Total
Revenue	\$ 949,381	\$ 171,722	\$ 65,476	\$ 1,186,579
Cost of revenue (exclusive of depreciation and amortization)	752,796	111,135	39,751	903,682
Selling, general and administrative expenses				137,231
Depreciation and amortization				109,428
Related party expense				3,267
Interest expense, net				114,883
Loss on extinguishment of debt				1,067
Sundry expense, net				(4,961)
Other income, net				(4,813)
Net loss before income taxes				<u>\$ (73,205)</u>

	Nine months ended September 30, 2017			
	ITPS	HS	LLPS	Total
Revenue	\$ 525,557	\$ 173,548	\$ 66,930	\$ 766,035
Cost of revenue (exclusive of depreciation and amortization)	385,447	113,152	40,643	539,242
Selling, general and administrative expenses				172,626
Depreciation and amortization				70,779
Related party expense				31,733
Interest expense, net				91,740
Sundry expense, net				2,960
Loss on extinguishment of debt				35,512
Net loss before income taxes				<u>\$ (178,557)</u>

## 15. Subsequent Events

On October 31, 2018 Exela entered into a definitive agreement to acquire Drescher Group (“Drescher”), a well-established business process outsourcing (“BPO”) company focusing on integrated communications with a large presence in Europe’s largest economy, Germany. The purchase price was approximately \$5.1 million on a cash free, debt free basis. The acquisition is subject to customary and closing conditions, including regulatory approval.

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

*You should read the following discussion and analysis together with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q. Among other things, the condensed consolidated financial statements include more detailed information regarding the basis of presentation for the financial data than included in the following discussion. Amounts in thousands of United States dollars.*

### **Forward Looking Statements**

*Certain statements included in this Management’s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this quarterly report are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as “may”, “should”, “would”, “plan”, “intend”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “seem”, “seek”, “continue”, “future”, “will”, “expect”, “outlook” or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, the estimated or anticipated future results and benefits of the Novitex Business Combination, future opportunities for the combined company, and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties regarding Exela’s businesses and actual results may differ materially. The factors that may affect our results include, among others: the impact of political and economic conditions on the demand for our services; the impact of a data or security breach; the impact of competition or alternatives to our services on our business pricing and other actions by competitors; our ability to address technological development and change in order to keep pace with our industry and the industries of our customers; the impact of terrorism, natural disasters or similar events on our business; the effect of legislative and regulatory actions in the United States and internationally; the impact of operational failure due to the unavailability or failure of third-party services on which we rely; the effect of intellectual property infringement; and other factors discussed in this quarterly report and our Annual Report on Form 10-K for the year ended December 31, 2017 (our “Annual Report”) under the heading “Risk Factors” as supplemented by risk factors described in Part II, “Item 1A. Risk Factors” of our quarterly report for the quarter ended June 30, 2018 and otherwise identified or discussed in this quarterly report. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this quarterly report. It is impossible for us to predict new events or circumstances that may arise in the future or how they may affect us. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this quarterly report. We are not including the information provided on the websites referenced herein as part of, or incorporating such information by reference into, this quarterly report. In addition, forward-looking statements provide Exela’s expectations, plans or forecasts of future events and views as of the date of this quarterly report. Exela anticipates that subsequent events and developments will cause Exela’s assessments to change. These forward-looking statements should not be relied upon as representing Exela’s assessments as of any date subsequent to the date of this quarterly report.*

## Overview

We are a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. Our technology-enabled solutions allow multi-national organizations to address critical challenges resulting from the massive amounts of data obtained and created through their daily global operations. Our solutions address the life cycle of transaction processing and enterprise information management, from enabling payment gateways and data exchanges across multiple systems, to matching inputs against contracts and handling exceptions, to ultimately depositing payments and distributing communications. We believe our process expertise, information technology capabilities and operational insights enable our clients' organizations to more efficiently and effectively execute transactions, make decisions, drive revenue and profitability, and communicate critical information to their employees, customers, partners, and vendors.

## History

We are a former blank check company that completed our initial public offering on January 22, 2015. In July 2017, Exela Technologies, Inc. ("Exela"), formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), completed its acquisition of SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the business combination agreement dated February 21, 2017 ("Novitex Business Combination"). In conjunction with the completion of the Novitex Business Combination, Quinpario was renamed as Exela Technologies, Inc.

The Novitex Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. Outstanding shares of SourceHOV were converted into equity in a newly formed entity that acquired our common shares, presented as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The acquisition of Novitex was treated as a business combination under ASC 805 and was accounted for using the acquisition method. The strategic combination of SourceHOV and Novitex formed Exela, which is one of the largest global providers of information processing solutions based on revenues.

## Basis of Presentation

This analysis is presented on a consolidated basis. In addition, a description is provided of significant transactions and events that have an impact on the comparability of the results being analyzed. Due to our specific situation, the financial information presented for the three and nine months ended September 30, 2018 is only partially comparable to the financial information for the three and nine months ended September 30, 2017. Since SourceHOV was deemed the accounting acquirer in the Novitex Business Combination consummated on July 12, 2017, the financial information presented for the three and nine months ended September 30, 2017 reflects the financial information and activities of SourceHOV only. The financial information presented for the three and nine months ended September 30, 2018 includes the financial information and activities for SourceHOV and Novitex for the period January 1, 2018 to September 30, 2018. This lack of comparability needs to be taken into account when reading the discussion and analysis of our results of operations and cash flows.

## Our Segments

Our three reportable segments are Information & Transaction Processing Solutions ("ITPS"), Healthcare Solutions ("HS"), and Legal & Loss Prevention Services ("LLPS"). These segments are comprised of significant strategic business units that align our transaction processing solutions and enterprise information management products and services with how we manage our business, approach our key markets and interact with our clients based on their respective industries.

**ITPS:** Our largest segment, ITPS, provides a wide range of solutions and services designed to aid businesses in information capture, processing, and distribution to customers primarily in the financial services, commercial, public sector and legal industries. Our major customers include the top 10 U.S. banks, 9 of the top 10 U.S. insurance companies, 5 of the top U.S. telecom companies, over 40 utility companies, over 30 state and county departments, and over 80 government entities. Our ITPS offerings

enable companies to increase availability of working capital, reduce turnaround times for application processes, increase regulatory compliance and enhance consumer engagement.

**HS:** HS operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets. We serve the top 5 healthcare insurance payers and over 900 healthcare providers.

**LLPS:** Our LLPS segment provides a broad and active array of support services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters. Our client base consists of corporate counsel, government attorneys, and law firms.

## **Acquisitions**

In July 2017, we completed the Novitex Business Combination. SourceHOV was deemed to be the accounting acquirer. Through the acquisition of SourceHOV and Novitex, we continue to pursue revenue synergies, leverage brand awareness, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. We anticipate future opportunities for growth through the ability to leverage additional future services and capabilities.

Prior to the 2017 Novitex Business Combination, SourceHOV transformed into a multi-industry solution provider and acquired key technology through the acquisition of TransCentra, Inc. (“TransCentra”), a provider of integrated outsourced billing, remittance processing and imaging software and consulting services. The addition of TransCentra increased SourceHOV’s footprint in the remittance transaction processing and presentment area, expanded its mobile banking offering and enabled significant cross-selling and up-selling opportunities.

On April 10, 2018, Exela completed the acquisition of Asterion International Group (“Asterion”), a well-established provider of technology driven business process outsourcing, document management and business process automation (“BPA”) across Europe. Asterion currently serves over 250 key customers in Europe from 13 operating locations and 30 customer sites. The purchase price was approximately \$19.5 million. The acquisition comes with minimal customer overlap and is strategic to expand Exela’s pro forma combined European business to over \$200 million in annual revenue. This acquisition will not only enable Asterion’s customers to access Exela’s full suite of BPA solutions but also strategically position Exela to expand its existing revenue base through a broader portfolio of offerings with a larger European presence.

## **Revenues**

ITPS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services. HS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers. LLPS revenues are primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

## **People**

We draw on the business and technical expertise of our talented and diverse global workforce to provide our customers with high-quality services. Our business leaders bring a strong diversity of experience in our industry and a track record of successful performance and execution.

Costs associated with our employees represent the most significant expense for our business. We incurred personnel costs of \$168.8 million and \$168.0 million for the three months ended September 30, 2018 and 2017, respectively. We incurred personnel costs of \$516.5 million and \$360.0 million for the nine months ended September 30, 2018 and 2017, respectively. The majority of our personnel costs are variable and are incurred only while we are providing our services.

## **Key Performance Indicators**

We use a variety of operational and financial measures to assess our performance. Among the measures considered by our management are the following:

Revenue by segment;

EBITDA; and

Adjusted EBITDA

Revenue

We analyze our revenue by comparing actual monthly revenue to internal projections and prior periods across our operating segments in order to assess performance, identify potential areas for improvement, and determine whether our segments are meeting management's expectations.

EBITDA and Adjusted EBITDA

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses. See "—Other Financial Information (Non-GAAP Financial Measures)" for more information and a reconciliation of EBITDA and Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

## **Results of Operations**

**Three Months Ended September 30, 2018 compared to Three Months Ended September 30, 2017:**

	<u>Three Months ended September 30,</u>		<u>Change</u>	<u>% Change</u>
	<u>2018</u>	<u>2017</u>		
<b>Revenue:</b>				
ITPS	\$ 307,313	\$ 260,019	\$ 47,294	18.19%
HS	56,776	56,405	371	0.66%
LLPS	18,941	21,969	(3,028)	-13.78%
<b>Total revenue</b>	<b>383,030</b>	<b>338,393</b>	<b>44,637</b>	<b>13.19%</b>
<b>Cost of revenues (exclusive of depreciation and amortization):</b>				
ITPS	246,492	204,602	41,890	20.47%
HS	36,919	37,451	(532)	-1.4%
LLPS	12,525	13,063	(538)	-4.12%
<b>Total cost of revenues</b>	<b>295,936</b>	<b>255,116</b>	<b>40,820</b>	<b>16.00%</b>
Selling, general and administrative expenses	44,913	102,048	(57,135)	-55.99%
Depreciation and amortization	35,041	28,052	6,989	24.91%
Related party expense	759	26,892	(26,133)	-97.18%
Operating income	6,381	(73,715)	80,096	-108.66%
Interest expense, net	38,339	37,652	687	1.82%
Loss on extinguishment of debt	1,067	35,512	(34,445)	-97.00%
Sundry expense/(income), net	(2,571)	563	(3,134)	-556.66%
Other income, net	(781)	—	(781)	—
<b>Net loss before taxes</b>	<b>(29,673)</b>	<b>(147,442)</b>	<b>117,769</b>	<b>-79.87%</b>
Income tax expense	733	37,002	(36,269)	-98.02%
<b>Net loss</b>	<b>\$ (28,940)</b>	<b>\$ (110,440)</b>	<b>\$ 81,500</b>	<b>-73.8%</b>

### **Revenue**

The increase in total revenues was primarily related to the Novitex Business Combination and the Asterion Business Combination. Our ITPS, HS, and LLPS segments constituted 80.2%, 14.8%, and 5.0% of total revenue, respectively, for the three months ended September 30, 2018, compared to 76.8%, 16.7%, and 6.5%, respectively, for the three months ended September 30, 2017. The revenue changes by reporting segment were as follows:

ITPS — The increase was primarily attributable to the Novitex Business Combination and the Asterion Business Combination, which contributed \$28.1 million and \$18.9 million, or 99.5% of the increase.

HS — The amounts are materially consistent with the prior period.

LLPS — The decrease was primarily attributable to projects winding down during the third quarter of 2018.

### **Cost of Revenue**

The increase in total cost of revenue was primarily related to the Novitex Business Combination and the Asterion Business Combination. The cost of revenue changes by operating segment was as follows:

ITPS — The increase was primarily attributable to the Novitex Business Combination and the Asterion Business Combination, which contributed approximately \$26.0 million and \$17.5 million of the increase.

HS — The amounts are materially consistent with the prior period. Cost of revenue as a percentage of total revenue was 65.0% in the third quarter of 2018 compared to 66.4% in the third quarter of 2017, a decrease of 1.4%.

LLPS — Cost of revenue as a percentage of revenue increased to 66.1% in the third quarter of 2018 compared to 59.5% in the third quarter of 2017 mainly driven by the lower revenue from projects winding down.

***Selling, General and Administrative Expenses***

The decrease of \$57.1 million for the comparative period was primarily driven by the one-time transaction costs incurred in 2017 as part of the Business Combination, offset by the impact of the Asterion Business Combination which contributed \$2.0 million in expense for the three months ended September 30, 2018.

***Depreciation & Amortization***

The increase was primarily attributable to amortization of trademarks and trade names resulting in higher amortization expense.

***Related Party Expenses***

Excluding the \$23.0 million of contract termination and advisory fees to HandsOn Global Management (“HGM”) during 2017 in connection with the Novitex Business Combination, the expenses remained relatively flat.

***Interest Expense***

The amounts are materially consistent with the prior period.

***Sundry Expense (Income)***

The decrease was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The increase is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument of \$0.8 million for the quarter ended September 30, 2018 were recorded directly in earnings.

***Income Tax (Expense) Benefit***

We had an income tax benefit of \$0.7 million for the three months ended September 30, 2018 compared to an income tax benefit of \$37.0 million for the three months ended September 30, 2017. The change in the income tax expense was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The income tax benefit for the three months ended September 30, 2017 was primarily related to the decrease of valuation allowance on a portion of the Company’s U.S. federal and state valuation allowance on deferred tax assets in connection with the acquisition of Novitex. The change in the effective tax rate for the three months ended September 30, 2018 resulted from permanent tax adjustments and valuation allowances, including valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

**Nine Months Ended September 30, 2018 compared to Nine Months Ended September 30, 2017:**

	<b>Nine Months ended September 30,</b>		<b>Change</b>	<b>% Change</b>
	<b>2018</b>	<b>2017</b>		
<b>Revenue:</b>				
ITPS	\$ 949,381	\$ 525,557	\$ 423,824	80.64%
HS	171,722	173,548	(1,826)	-1.05%
LLPS	65,476	66,930	(1,454)	-2.17%
<b>Total revenue</b>	<b>1,186,579</b>	<b>766,035</b>	<b>420,544</b>	<b>54.90%</b>
<b>Cost of revenues (exclusive of depreciation and amortization):</b>				
ITPS	752,796	385,447	367,349	95.30%
HS	111,135	113,152	(2,017)	-1.78%
LLPS	39,751	40,643	(892)	-2.19%
<b>Total cost of revenues</b>	<b>903,682</b>	<b>539,242</b>	<b>364,440</b>	<b>67.58%</b>
Selling, general and administrative expenses	137,231	172,626	(35,395)	-20.50%
Depreciation and amortization	109,428	70,779	38,649	54.61%
Related party expense	3,267	31,733	(28,466)	-89.70%
<b>Operating income</b>	<b>32,971</b>	<b>(48,345)</b>	<b>81,316</b>	<b>-168.20%</b>
Interest expense, net	114,883	91,740	23,143	25.23%
Loss on extinguishment of debt	1,067	35,512	(34,445)	-97.00%
Sundry expense/(income), net	(4,961)	2,960	(7,921)	-267.60%
Other income, net	(4,813)	—	(4,813)	—
<b>Net loss before taxes</b>	<b>(73,205)</b>	<b>(178,557)</b>	<b>105,352</b>	<b>-59.00%</b>
Income tax expense	(4,911)	32,924	(37,835)	-114.92%
<b>Net loss</b>	<b>\$ (78,116)</b>	<b>\$ (145,633)</b>	<b>\$ 67,517</b>	<b>-46.4%</b>

**Revenue**

The increase in total revenues was primarily related to the Novitex Business Combination and the Asterion Business Combination. Our ITPS, HS, and LLPS segments constituted 80.0%, 14.5%, and 5.5% of total revenue, respectively, for the nine months ended September 30, 2018, compared to 68.6%, 22.7%, and 8.7%, respectively, for the nine months ended September 30, 2017. The revenue changes by reporting segment were as follows:

ITPS — The increase was primarily attributable to the Novitex Business Combination and the Asterion Business Combination, which contributed \$378.3 million and \$39.8 million, or 98.6% of the increase.

HS — The net decrease of \$2.0 million is primarily attributable to lower volumes in healthcare provider business.

LLPS — The decrease was primarily attributable to the disposal of Meridian Consulting in the first quarter of 2017.

**Cost of Revenue**

The increase in total cost of revenue was primarily related to the Novitex Business Combination and the Asterion Business Combination. The cost of revenue changes by operating segment was as follows:

ITPS — The increase was primarily attributable to the Novitex Business Combination and the Asterion Business combination, which contributed approximately \$324.5 million and \$36.6 million, or 98.3% of the increase.

HS — The decrease was primarily driven by cost savings synergies. Cost of revenue as a percentage of revenue remained relatively flat at 64.7% in the first nine months of 2018 compared to 65.2% in the first nine months of 2017.



LLPS — Cost of revenue, as a percentage of revenue remained flat at 60.7% for the first nine months of 2018 as well as 2017.

***Selling, General and Administrative Expenses***

The decrease of \$35.4 million for the comparative period was primarily driven by the one-time transaction costs incurred in 2017 as part of the Novitex Business Combination.

***Depreciation & Amortization***

The increase was primarily attributable to accelerated amortization of trademarks and trade names resulting in higher amortization expense.

***Related Party Expenses***

The decrease was primarily attributable to the \$23.0 million of contract termination and advisory fees to HandsOn Global Management (“HGM”) during 2017 in connection with the Novitex Business Combination. Additionally, the July 2017 termination of the management agreement with HGM resulted in lower management fees expense of \$3.0M for the comparative period.

***Interest Expense***

The increase was primarily attributable to the issuance of new debt in conjunction with the Novitex Business Combination.

***Sundry Expense (Income)***

The decrease was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The increase is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument of \$5.5 million for the nine months ended September 30, 2018 were recorded directly in earnings. This was offset by a net loss on the sale of a business asset of 0.7 million.

***Income Tax (Expense) Benefit***

We had income tax expense of \$4.9 million for the nine months ended September 30, 2018 compared to income tax benefit of \$32.9 million for the nine months ended September 30, 2017. The change in the income tax expense was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The income tax benefit for the nine months ended September 30, 2017 was primarily related to the decrease of valuation allowance on a portion of the Company’s U.S. federal and state valuation allowance on deferred tax assets in connection with the acquisition of Novitex. The change in the effective tax rate for the nine months ended September 30, 2018 resulted from permanent tax adjustments and valuation allowances, including valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

***Other Financial Information (Non-GAAP Financial Measures)***

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash

compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses.

We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting its business in addition to measures calculated under GAAP. Additionally, our credit agreement requires us to comply with certain EBITDA related metrics. Refer to “—Liquidity and Capital Resources—Credit Facility.”

### Note Regarding Non-GAAP Financial Measures

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations as our board of directors and management use EBITDA and Adjusted EBITDA to assess our financial performance, because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team. Net loss is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA and Adjusted EBITDA in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

### Three months ended September 30, 2018 compared to the Three Months ended September 30, 2017

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the three months ended September 30, 2018 and 2017:

	Three months ended September 30,	
	2018	2017
Net Loss	\$ (28,940)	\$ (110,440)
Taxes	(733)	(37,002)
Interest Expense	38,339	37,652
Depreciation and Amortization	35,041	28,052
EBITDA	43,707	(81,738)
Optimization and restructuring expenses (1)	19,446	19,702
Transaction related costs (2)	220	77,321
Non-cash equity compensation (3)	1,621	2,230
Other charges including non-cash (4)	2,848	364
Loss on sale of assets (5)	769	—
Gain on sale of Meridian (6)	—	(337)
Loss on extinguishment of debt	1,067	35,512
Gain on derivative instruments	(781)	—
Adjusted EBITDA	\$ 68,898	\$ 53,054

- (1) Adjustment represents net salary and benefits associated with positions that are part of the on-going savings initiatives including severance, retention bonuses, and related fees and expenses. Additionally, the adjustment includes charges incurred by us to terminate existing lease and vendor contracts as part of the on-going savings initiatives.

- (2) Represents costs incurred related to transactions for completed or contemplated transactions during the period.
- (3) Represents the non-cash charges related to restricted stock units and options granted by Ex-Sigma, LLC and Exela to our employees that vested during the year.
- (4) Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting and other non-cash charges.
- (5) Represents a loss recognized on the disposal of property, plant, and equipment and other assets.
- (6) Represents a gain recognized on the disposal of Meridian Consulting Group, LLC.

### **EBITDA and Adjusted EBITDA**

EBITDA was \$43.7 million for the three months ended September 30, 2018 compared to \$(81.7) million for the three months ended September 30, 2017. Adjusted EBITDA was \$68.9 million for the three months ended September 30, 2018 compared to \$53.1 million for the three months ended September 30, 2017. The increase in EBITDA for the three months ended September 30, 2018 was primarily due to the net loss that was comprised of significantly higher transaction costs and loss on extinguishment of debt incurred as a result of the Novitex Business Combination in 2017.

### **Nine months ended September 30, 2018 compared to the Nine Months ended September 30, 2017:**

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the nine months ended September 30, 2018 and 2017:

	<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Net Loss	\$ (78,116)	\$ (145,633)
Taxes	4,911	(32,924)
Interest Expense	114,883	91,740
Depreciation and Amortization	109,428	70,779
<b>EBITDA</b>	<b>151,106</b>	<b>(16,038)</b>
Optimization and restructuring expenses (1)	46,968	31,535
Transaction related costs (2)	2,097	86,561
Non-cash equity compensation (3)	4,516	4,446
Other charges including non-cash (4)	5,463	514
Loss on sale of of assets (5)	1,434	18
(Gain)/loss on sale of Meridian (6)	720	(588)
Management, board fees and expenses (7)	—	4,153
Loss on extinguishment of debt	1,067	35,512
Gain on derivative instruments	(4,813)	—
<b>Adjusted EBITDA</b>	<b>\$ 208,558</b>	<b>146,113</b>

- (1) Adjustment represents net salary and benefits associated with positions that are part of the on-going savings initiatives including severance, retention bonuses, and related fees and expenses. Additionally, the adjustment includes charges incurred by us to terminate existing lease and vendor contracts as part of the on-going savings initiatives.
- (2) Represents costs incurred related to transactions for completed or contemplated transactions during the period.
- (3) Represents the non-cash charges related to restricted stock units and options granted by Ex-Sigma, LLC and Exela to our employees that vested during the year.
- (4) Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting and other non-cash charges.
- (5) Represents a loss recognized on the disposal of property, plant, and equipment and other assets.
- (6) Represents a gain recognized on the disposal of Meridian Consulting Group, LLC.

- (7) Amount represents management fees paid to HGM and TransCentra's prior owner, Board of Directors fees and corresponding travel, and other expenses (e.g., rating agency fees, chargebacks) which are not expected to continue on a go-forward basis.

### **EBITDA and Adjusted EBITDA**

EBITDA was \$151.1 million for the nine months ended September 30, 2018 compared to \$(16.0) million for the nine months ended September 30, 2017. Adjusted EBITDA was \$208.6 million for the nine months ended September 30, 2018 compared to \$146.1 million for the nine months ended September 30, 2017. The increase in EBITDA for the nine months ended September 30, 2018 was primarily due to the net loss that was comprised of significantly higher transaction costs and loss on extinguishment of debt incurred as a result of the Novitex Business Combination in 2017.

### **Liquidity and Capital Resources**

#### **Overview**

Our primary source of liquidity is principally cash generated from operating activities supplemented as necessary on a short-term basis by borrowings against our senior secured revolving credit facility. We believe our current level of cash and short-term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business.

We currently expect to spend approximately \$40 to \$45 million on total capital expenditures over the next twelve months. We believe that our operating cash flow and available borrowings under our credit facility will be sufficient to fund our operations for at least the next twelve months.

On July 13, 2018, Exela successfully repriced the \$343.4 million of term loans outstanding under its senior secured credit facilities (the "Repricing"). The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

At September 30, 2018, cash and cash equivalents totaled \$49.6 million and we had availability of \$79.4 million under our senior secured revolving credit facility.

#### **Cash Flows**

The following table summarizes our cash flows for the periods indicated:

	<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Cash flow used in operating activities	\$ (2,280)	\$ (11,801)
Cash flow used in investing activities	(28,002)	(440,667)
Cash flow provided by (used in) financing activities	(1,005)	482,569
Subtotal	(31,287)	30,101
Effect of exchange rates on cash	(554)	335
Net increase (decrease) in cash	\$ (31,842)	\$ 30,436

### **Analysis of Cash Flow Changes between the Nine Months Ended September 30, 2018 and September 30, 2017**

Operating Activities—The increase of \$9.5 million in cash flows from operating activities for the nine months ended September 30, 2018 was primarily due to increased revenues due to the Novitex Business Combination, professional stock fees paid in 2017 as part of the Novitex Business Combination, and an

adjustment in deferred income tax benefits offset by lower cash flows relating to the timing of payment of accounts payable and accrued liabilities, an increase in cost of revenues, higher interest payments, and lower cash inflows from accounts receivable due to unbilled receivables from new customers.

**Investing Activities**—The increase of \$412.7 million in cash used in investing activities was primarily due to the cash paid in the Novitex Business Combination offset by an increase in purchases of property, plant, and equipment.

**Financing Activities**—The decrease of \$483.6 million in cash used in financing activities was primarily due to proceeds from the new credit facility associated with the Novitex Business Combination and lower principal payments on long-term obligations offset by contributions from shareholders during the first quarter of 2017, increased cash paid for equity issuance costs during the first quarter of 2018, and cash paid for common share repurchases in the second quarter of 2018, partially offset by lower principal payments on long-term obligations.

## **Indebtedness**

In connection with the Novitex Business Combination, we acquired debt facilities and issued notes totaling \$1.4 billion. Proceeds from the indebtedness were used to pay off credit facilities existing immediately before the Novitex Business Combination.

### *Senior Credit Facilities*

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a \$350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount of \$7.0 million, and (ii) a \$100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity. As of September 30, 2018 the interest rate applicable for the first lien senior secured term loan was 8.83%.

### *Senior Secured Notes*

Senior secured notes of \$1.0 billion due July 2023 were also issued as part of the Novitex Business Combination. The notes bear interest at a rate of 10.0% per year. We pay interest on the notes on January 15 and July 15 of each year, commencing on January 15, 2018. The notes are guaranteed by subsidiary guarantors pursuant to a supplemental indenture.

### *Term Loan Repricing*

On July 13, 2018, Exela successfully repriced the \$343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing”). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the “First Amendment”), dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, the Company, each “Subsidiary Loan Party” listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party

thereto, whereby the Company borrowed \$343.4 million of refinancing term loans (the “Repricing Term Loans”) to refinance the Company’s existing senior secured term loans.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement, by and among Exela Intermediate Holdings, LLC, the Company, Royal Bank of Canada, as administrative agent and collateral agent, and each of the lenders party thereto. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

#### *Incremental Term Loan*

On July 13, 2018, the Company successfully borrowed an additional \$30.0 million pursuant to incremental term loans (the “Incremental Term Loans”) under the First Amendment. The proceeds of the Incremental Term Loans may be used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the Incremental Term Loans are the same as those for the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the “Term Loans”) at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary “breakage” costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a “repricing event” applicable to the Term Loans resulting in a lower yield occurring at any time during the first six months after July 13, 2018 will be accompanied by a 1.00% prepayment premium or fee, as applicable.

#### *Letters of Credit*

As of September 30, 2018 and December 31, 2017, we had outstanding irrevocable letters of credit totaling approximately \$20.6 million and \$20.9 million, respectively, under the revolving credit facility.

#### **Contractual Obligations**

Our contractual obligations are described in our Form 10-K for the fiscal year ended December 31, 2017. There have been no material changes to that information since December 31, 2017.

#### **Potential Future Transactions**

We may, from time to time explore and evaluate possible strategic transactions, which may include joint ventures, as well as business acquisitions or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds will likely be required. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for transactions that require additional funds on favorable terms, if at all.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

#### **Interest Rate Risk**

At September 30, 2018, we had \$1,327.9 million of debt outstanding, with a weighted average interest rate of 9.6%. Interest is calculated under the terms of our credit agreement based on the greatest of certain specified base rates plus an applicable margin that varies based on certain factors. Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the assumed weighted average interest rate would be approximately \$13.3 million per year. In order to mitigate interest rate fluctuations with respect to term loan borrowings under the Credit Agreement, in November 2017, we entered into a three year; one-month LIBOR interest rate swap contract with a notional amount of \$347.8 million, which at the time was the remaining principal balance of the term loan. The swap contract swaps out the floating rate interest risk related to the LIBOR with a fixed interest rate of 1.9275% effective January 12, 2018.

The interest rate swap, which is used to manage our exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly to other income in the amount of \$0.8 million and \$5.5 million for the three and nine months ended September 30, 2018.

#### **Foreign Currency Risk**

We are exposed to foreign currency risks that arise from normal business operations. These risks include transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location's functional currency. Contracts are denominated in currencies of major industrial countries.

#### **Market Risk**

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity.

#### **Off Balance Sheet Arrangements**

At September 30, 2018, we had no material off balance sheet arrangements, except for operating leases as described in our Form 10-K for the fiscal year ended December 31, 2017 and letters of credit described above under Liquidity and Capital Resources. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

### **Item 4. Internal Controls and Procedures**

#### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (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 our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief

Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to a material weakness in internal control over financial reporting described below.

### **Material Weakness identified as of December 31, 2017**

As of the year ended December 31, 2017, management identified a material weakness in internal controls over financial reporting relating to the supervision of specialists engaged to assist management in developing accounting conclusions with respect to a specific revenue contract and stock-based compensation accounting. We are addressing the material weakness through hiring additional experienced professionals. We have initiated changes in our process of evaluating information provided to and received from experts and are currently assessing the design and operating effectiveness of such controls.

### **Management’s Report on Internal Controls over Financial Reporting**

Our Annual Report on Form 10-K for the year ended December 31, 2017 did not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

The SEC, as required by Section 404 of the Sarbanes-Oxley Act, adopted rules requiring companies that file reports with the SEC to include a management report on such company’s internal control over financial reporting in its annual report. In addition, our independent registered public accounting firm will be required to attest to our internal control over financial reporting. Management will be required to provide an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018. Our independent registered public accounting firm will first be required to attest to the effectiveness of our internal control over financial reporting for our Annual Report on Form 10-K for the first year we are no longer an “emerging growth company” under the JOBS Act. We are in the process of improving the internal control over financial reporting required to comply with this obligation. However, there is no guarantee that our efforts will result in management’s ability to conclude, or, if required, our independent registered public accounting firm to attest, that our internal control over financial reporting is effective as of December 31, 2018.

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

There have been no changes in our internal control over financial reporting during the quarter-ended September 30, 2018 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**

#### *Appraisal Demand*

On September 21, 2017, former stockholders of SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaeian Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the “Appraisal Action”). The Appraisal Action arises out of the Novitex Business Combination, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the



Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The parties have commenced discovery. Trial is currently scheduled for June 2019. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action. Pursuant to the terms of the Novitex Business Combination Agreement, if such appraisal rights are perfected, a corresponding portion of shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in the Consent, Waiver and Amendment dated June 15, 2017) is repaid. The Company intends to vigorously defend against the Appraisal Action.

*Other*

We are involved in various other legal proceedings that have arisen in the normal course of business. While the ultimate results of these matters cannot be predicted with certainty, we do not expect them to have a material adverse effect on our Consolidated Financial Statements.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, and supplemented by risk factors described in Part II, "Item 1A. Risk Factors" in our quarterly report for the quarter ended June 30, 2018 (collectively, the "Risk Factors") which could materially affect our business, financial condition and/or operating results. The risks described in these Risk Factors are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires 24 months after authorized. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. In November of 2017, the Company purchased 49,300 shares as part of the Program. We purchased an additional 225,504 shares during the third quarter of 2018 at an average share price of \$4.94. As of September 30, 2018, 1,043,497 shares had been repurchased under the Share Buyback Program. The Company records treasury stock using the cost method.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

Exhibit No.	Description
2.1	<a href="#">Business Combination Agreement, dated as of February 21, 2017, by and among Quinpario Acquisition Corp. 2, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex Holdings, Inc., SourceHOV Holdings, Inc., Novitex Parent, L.P, HOVS LLC and HandsOn Fund 4 I, LLC (3)</a>
3.1	<a href="#">Restated Certificate of Incorporation, dated July 12, 2017 (4)</a>
3.2	<a href="#">Amended and Restated Bylaws, dated July 12, 2017 (4)</a>
4.1	<a href="#">Specimen common stock Certificate (1)</a>
4.2	<a href="#">Specimen Warrant Certificate (1)</a>
4.3	<a href="#">Form of Warrant Agreement between Continental Stock Transfer &amp; Trust Company and the Registrant (1)</a>
4.4	<a href="#">Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc. as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4)</a>
4.5	<a href="#">First Supplemental Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc., as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4)</a>
10.1	<a href="#">First Amendment to First Lien Credit Agreement, dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each Subsidiary Loan Party listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto.</a>
31.1	<a href="#">Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002</a>
31.2	<a href="#">Certification of the Principal Financial and Accounting Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002</a>
32.1	<a href="#">Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002</a>
32.2	<a href="#">Certification of the Principal Financial and Accounting Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

- (1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-198988).
- (2) Incorporated by reference to the Registrant's Amendment No. 1 to Registration Statement on Form S-3, filed on February 16, 2018.
- (3) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed on February 22, 2017.
- (4) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 18, 2017.
- (5) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 17, 2018.

**SIGNATURES**

Pursuant to the requirements of the Section 13 or 15 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 8th day of November, 2018.

EXELA TECHNOLOGIES, INC.

By: /s/ Ronald Cogburn  
 Ronald Cogburn  
 Chief Executive Officer (Principal Executive Officer)

By: /s/ James G. Reynolds  
 James G. Reynolds  
 Chief Financial Officer (Principal Financial and Accounting Officer)

**CERTIFICATION**  
**PURSUANT TO RULE 13a-14 AND 15d-14**  
**UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Ronald Cogburn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Exela Technologies, Inc.;
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)) 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) 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
  - (c) 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 fiscal 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 functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2018

/s/ Ronald Cogburn

Name: Ronald Cogburn

Title: Chief Executive Officer (Principal Executive Officer)

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**CERTIFICATION**  
**PURSUANT TO RULE 13a-14 AND 15d-14**  
**UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, James G. Reynolds, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Exela Technologies, Inc.;
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)) 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) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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
  - (c) 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 fiscal 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 functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2018

/s/ James G. Reynolds

Name: James G. Reynolds

Title: Chief Financial Officer (Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Exela Technologies, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: November 8, 2018

/s/ Ronald Cogburn  
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Name: Ronald Cogburn  
Title: Chief Executive Officer  
(Principal Executive Officer)

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

In connection with the Quarterly Report of Exela Technologies, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: November 8, 2018

/s/ James G. Reynolds  
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Name: James G. Reynolds  
Title: Chief Financial Officer  
(Principal Financial and Accounting Officer)

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