
**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, 2019

Or

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

For the transition period from _____ to _____
Commission file number: **001-36788**

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	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, Par Value \$0.0001 per share	XELA	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
Non-Accelerated Filer

Accelerated Filer
Smaller Reporting Company
Emerging Growth Company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 11, 2019 the registrant had 150,698,864 shares of Common Stock outstanding.

Exela Technologies, Inc.

Form 10-Q

For the quarterly period ended September 30, 2019

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Exela Technologies, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
As of September 30, 2019 and December 31, 2018
(in thousands of United States dollars except share and per share amounts)

	September 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 10,312	\$ 25,615
Restricted cash	4,913	18,239
Accounts receivable, net of allowance for doubtful accounts of \$7,021 and \$4,359, respectively	260,438	270,812
Related party receivables	42	—
Inventories, net	16,996	16,220
Prepaid expenses and other current assets	22,695	25,015
Total current assets	315,396	355,901
Property, plant and equipment, net of accumulated depreciation of \$171,913 and \$154,060, respectively	119,469	132,986
Operating lease right-of-use assets, net	93,352	—
Goodwill	609,458	708,258
Intangible assets, net	374,445	407,021
Deferred income tax assets	15,830	16,225
Other noncurrent assets	13,557	19,391
Total assets	\$ 1,541,507	\$ 1,639,782
Liabilities and Stockholders' Equity (Deficit)		
Liabilities		
Current liabilities		
Accounts payables	\$ 93,815	\$ 99,853
Related party payables	274	7,735
Income tax payable	—	1,996
Accrued liabilities	60,994	66,008
Accrued compensation and benefits	51,819	54,583
Accrued interest	24,602	49,071
Customer deposits	30,161	34,235
Deferred revenue	17,368	16,504
Obligation for claim payment	43,267	56,002
Current portion of finance lease liabilities	15,172	17,498
Current portion of operating lease liabilities	26,604	—
Current portion of long-term debts	37,237	29,237
Total current liabilities	401,313	432,722
Long-term debt, net of current maturities	1,367,583	1,306,423
Finance lease liabilities, net of current portion	24,159	26,738
Pension liabilities	26,667	25,269
Deferred income tax liabilities	12,677	11,212
Long-term income tax liabilities	2,892	3,024
Operating lease liabilities, net of current portion	71,661	—
Other long-term liabilities	7,866	15,400
Total liabilities	1,914,818	1,820,788
Commitments and Contingencies (Note 10)		
Stockholders' equity (deficit)		
Common stock, par value of \$0.0001 per share; 1,600,000,000 shares authorized; 153,486,011 shares issued and 150,698,864 shares outstanding at September 30, 2019 and 152,692,140 shares issued and 150,142,955 shares outstanding at December 31, 2018	15	15
Preferred stock, par value of \$0.0001 per share; 20,000,000 shares authorized; 4,419,233 shares issued and outstanding at September 30, 2019 and 4,569,233 shares issued and outstanding at December 31, 2018	1	1
Additional paid in capital	482,018	482,018
Less: common stock held in treasury, at cost; 2,787,147 shares at September 30, 2019 and 2,549,185 shares December 31, 2018	(10,949)	(10,342)
Equity-based compensation	48,411	41,731
Accumulated deficit	(876,043)	(678,563)
Accumulated other comprehensive loss:		
Foreign currency translation adjustment	(7,786)	(6,565)
Unrealized pension actuarial losses, net of tax	(8,978)	(9,301)
Total accumulated other comprehensive loss	(16,764)	(15,866)
Total stockholders' deficit	(373,311)	(181,006)
Total liabilities and stockholders' deficit	\$ 1,541,507	\$ 1,639,782

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, 2019 and 2018
(in thousands of United States dollars except share and per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 372,917	\$ 383,030	\$ 1,166,841	\$ 1,186,579
Cost of revenue (exclusive of depreciation and amortization)	291,222	295,936	896,110	903,682
Selling, general and administrative expenses	50,372	44,913	151,884	137,231
Depreciation and amortization	27,114	35,041	82,326	109,428
Impairment of goodwill and other intangible assets	99,682	—	99,682	—
Related party expense	1,405	759	3,454	3,267
Operating income (loss)	(96,878)	6,381	(66,615)	32,971
Other expense (income), net:				
Interest expense, net	39,747	38,339	117,778	114,883
Debt modification and extinguishment costs	—	1,067	1,404	1,067
Sundry expense (income), net	(10)	(2,571)	1,028	(4,961)
Other expense (income), net	581	(781)	4,965	(4,813)
Net loss before income taxes	(137,196)	(29,673)	(191,790)	(73,205)
Income tax (expense) benefit	3,769	733	(5,689)	(4,911)
Net loss	\$ (133,427)	\$ (28,940)	\$ (197,479)	\$ (78,116)
Cumulative dividends for Series A Preferred Stock	(884)	(914)	(2,712)	(2,742)
Net loss attributable to common stockholders	\$ (134,311)	\$ (29,854)	\$ (200,191)	\$ (80,858)
Loss per share:				
Basic and diluted	\$ (0.89)	\$ (0.20)	\$ (1.33)	\$ (0.53)

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, 2019 and 2018
(in thousands of United States dollars except share and per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net Loss	\$ (133,427)	\$ (28,940)	\$ (197,479)	\$ (78,116)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	(2,325)	(2,492)	(1,221)	(3,639)
Unrealized pension actuarial gains (losses), net of tax	291	140	323	363
Total other comprehensive loss, net of tax	<u>\$ (135,461)</u>	<u>\$ (31,292)</u>	<u>\$ (198,377)</u>	<u>\$ (81,392)</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, 2019 and 2018
(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	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss		Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount				Unrealized Pension Actuarial Losses, net of tax			
Balances at January 1, 2018	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 4)	—	—	—	—	—	—	—	—	—	—	(1,418)	(1,418)	
Net loss January 1, 2018 to March 31, 2018	—	—	—	—	—	—	—	—	—	—	(23,994)	(23,994)	
Equity-based compensation	—	—	—	—	—	—	—	959	—	—	—	959	
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(268)	—	—	(268)	
Net realized pension actuarial gains, net of tax	—	—	—	—	—	—	—	—	—	(403)	—	(403)	
Preferred shares converted to common	1,986,767	—	(1,625,000)	—	—	—	—	—	—	—	—	—	
Balances at March 31, 2018	152,515,918	\$ 15	4,569,233	\$ 1	49,300	\$ (249)	\$ 482,018	\$ 35,044	\$ (462)	\$ (11,457)	\$ (540,040)	\$ (35,130)	
Net loss April 1, 2018 to June 30, 2018	—	—	—	—	—	—	—	—	—	—	(25,182)	(25,182)	
Equity-based compensation	—	—	—	—	—	—	—	1,936	—	—	—	1,936	
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(879)	—	—	(879)	
Net realized pension actuarial gains, net of tax	—	—	—	—	—	—	—	—	—	626	—	626	
Shares repurchased	(768,693)	—	—	—	768,693	(3,479)	—	—	—	—	—	(3,479)	
Balances at June 30, 2018	151,747,225	\$ 15	4,569,233	\$ 1	817,993	\$ (3,728)	\$ 482,018	\$ 36,980	\$ (1,341)	\$ (10,831)	\$ (565,222)	\$ (62,108)	
Net loss July 1, 2018 to September 30, 2018	—	—	—	—	—	—	—	—	—	—	(28,940)	(28,940)	
Equity-based compensation	—	—	—	—	—	—	—	1,365	—	—	—	1,365	
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(2,492)	—	—	(2,492)	
Net realized pension actuarial gains, net of tax	—	—	—	—	—	—	—	—	—	140	—	140	
Stock options exercised	126,922	—	—	—	—	—	—	256	—	—	—	256	
Shares repurchased	(225,504)	—	—	—	225,504	(1,420)	—	—	—	—	—	(1,420)	
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)	

	Common Stock		Preferred Stock		Treasury Stock		Additional Paid in Capital	Equity-Based Compensation	Accumulated Other Comprehensive Loss		Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount			Foreign Currency Translation Adjustment	Unrealized Pension Actuarial Losses, net of tax		
Balances at January 1, 2019	150,142,955	\$ 15	4,569,233	\$ 1	2,549,185	\$(10,342)	\$ 482,018	\$ 41,731	\$ (6,565)	\$ (9,301)	\$ (678,563)	\$ (181,006)
Net loss January 1, 2019 to March 31, 2019	—	—	—	—	—	—	—	—	—	—	(29,907)	(29,907)
Equity-based compensation	—	—	—	—	—	—	—	2,798	—	—	—	2,798
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	3,392	—	—	3,392
Net realized pension actuarial gains, net of tax	—	—	—	—	—	—	—	—	—	(224)	—	(224)
Balances at March 31, 2019	150,142,955	15	4,569,233	1	2,549,185	(10,342)	482,018	44,529	(3,173)	(9,525)	(708,470)	(204,947)
Net loss April 1, 2019 to June 30, 2019	—	—	—	—	—	—	—	—	—	—	(34,146)	(34,146)
Equity-based compensation	—	—	—	—	—	—	—	2,661	—	—	—	2,661
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(2,288)	—	—	(2,288)
Net realized pension actuarial gains, net of tax	—	—	—	—	—	—	—	—	—	256	—	256
RSUs vested	102,092	—	—	—	—	—	—	—	—	—	—	—
Shares repurchased	(237,962)	—	—	—	237,962	(607)	—	—	—	—	—	(607)
Balances at June 30, 2019	150,007,085	15	4,569,233	1	2,787,147	(10,949)	482,018	47,190	(5,461)	(9,269)	(742,616)	(239,071)
Net loss July 1, 2019 to September 30, 2019	—	—	—	—	—	—	—	—	—	—	(133,427)	(133,427)
Equity-based compensation	—	—	—	—	—	—	—	1,444	—	—	—	1,444
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(2,325)	—	—	(2,325)
Net realized pension actuarial gains, net of tax	—	—	—	—	—	—	—	—	—	291	—	291
RSUs vested	508,390	—	—	—	—	—	—	—	—	—	—	—
Withholding of employee taxes on vested RSUs	—	—	—	—	—	—	—	(223)	—	—	—	(223)
Preferred shares converted to common	183,389	—	(150,000)	—	—	—	—	—	—	—	—	—
Balances at September 30, 2019	150,698,864	\$ 15	4,419,233	\$ 1	2,787,147	\$(10,949)	\$ 482,018	\$ 48,411	\$ (7,786)	\$ (8,978)	\$ (876,043)	\$ (373,311)

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

Exela Technologies, Inc. and Subsidiaries
Condensed Consolidated Statement of Cash Flows
For the Nine Months Ended September 30, 2019 and 2018
(in thousands of United States dollars except share and per share amounts)
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Net loss	\$ (197,479)	\$ (78,116)
Adjustments to reconcile net loss		
Depreciation and amortization	82,326	109,428
Original issue discount and debt issuance cost amortization	8,730	8,062
Debt modification and extinguishment costs	1,049	—
Impairment of goodwill and other intangible assets	99,682	—
Provision for doubtful accounts	4,402	2,470
Deferred income tax provision	1,632	(3,689)
Share-based compensation expense	6,903	4,516
Foreign currency remeasurement	(173)	(2,040)
Loss (gain) on sale of assets	(191)	1,835
Fair value adjustment for interest rate swap	4,965	(5,456)
Change in operating assets and liabilities, net of effect from acquisitions		
Accounts receivable	3,501	(6,374)
Prepaid expenses and other assets	2,377	(5,770)
Accounts payable and accrued liabilities	(43,861)	(23,457)
Related party payables	(7,502)	(3,689)
Net cash used in operating activities	(33,639)	(2,280)
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,797)	(14,077)
Additions to internally developed software	(5,074)	(3,080)
Additions to outsourcing contract costs	(14,304)	(5,427)
Cash paid in acquisition, net of cash received	(5,000)	(6,513)
Proceeds from sale of assets	360	1,095
Net cash used in investing activities	(34,815)	(28,002)
Cash flows from financing activities		
Third party debt modification and extinguishment costs	355	1,067
Repurchases of common stock	(3,480)	(4,899)
Borrowings from other loans	1,728	3,068
Cash paid for equity issuance costs	—	(7,500)
Net borrowings under factoring arrangement	(494)	—
Cash paid for withholding taxes on vested RSUs	(223)	—
Proceeds from senior secured term loans	29,850	30,000
Cash paid for debt issuance costs	(362)	(1,094)
Borrowings from senior secured revolving facility	130,500	30,000
Repayments on senior secured revolving facility	(91,500)	(30,000)
Principal payments on finance lease obligations	(13,598)	(12,594)
Principal repayments on senior secured term loans and other loans	(12,922)	(9,053)
Net cash provided by (used in) financing activities	39,854	(1,005)
Effect of exchange rates on cash	(29)	(554)
Net decrease in cash and cash equivalents	(28,629)	(31,842)
Cash, restricted cash, and cash equivalents		
Beginning of period	43,854	81,489
End of period	<u>\$ 15,225</u>	<u>\$ 49,647</u>
Supplemental cash flow data:		
Income tax payments, net of refunds received	\$ 6,981	\$ 5,296
Interest paid	131,773	136,396
Noncash investing and financing activities:		
Assets acquired through right-of-use arrangements	9,352	9,318
Leasehold improvements funded by lessor	—	1,565
Accrued capital expenditures	1,083	1,994

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, 2018 included in the Exela Technologies, Inc. (the "Company," "Exela," "we," "our" or "us") annual report on Form 10-K for such period (the "2018 Form 10-K").

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, par value \$0.0001 per share ("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 nine months ended September 30, 2019 outstanding shares of the Series A Preferred Stock, if converted would have resulted in an additional 5,402,954 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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net loss attributable to common stockholders (A)	\$ (134,311)	\$ (29,854)	\$ (200,191)	\$ (80,858)
Weighted average common shares outstanding - basic and diluted (B)	150,207,483	151,663,670	150,140,577	152,010,290
Loss Per Share:				
Basic and diluted (A/B)	\$ (0.89)	\$ (0.20)	\$ (1.33)	\$ (0.53)

2. New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Effective January 1, 2019, the Company adopted Accounting Standards Update (“ASU”) no. 2016-02, *Leases (ASC 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. The Company adopted this guidance effective January 1, 2019, under the modified retrospective transition method provided by ASU 2018-11 with the following practical expedients below:

- Not to record the leases with an initial term of 12 months or less on the balance sheet; and
- Not to reassess the (1) definition of a lease, (2) lease classification, and (3) initial direct costs for existing leases during transition.

The adoption had a material impact on the Company's unaudited consolidated balance sheets, but did not have a material impact on the Company's unaudited consolidated income statements and unaudited consolidated statements of cash flows. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases, while the Company's accounting for finance leases remained substantially unchanged. See Note 5 for relevant disclosures.

Effective January 1, 2019, the Company adopted ASU no. 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, 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. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and nine months ended September 30, 2019.

Effective January 1, 2019, the Company adopted 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 adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and nine months ended September 30, 2019.

Effective January 1, 2019, the Company adopted ASU no. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this ASU address a narrow-scope financial reporting issue related to the tax effects that may become “stranded” in accumulated other comprehensive income (“AOCI”) as a result of the Tax Cuts and Jobs Act (“TCJA”). An entity may elect to reclassify the income tax effects of the TCJA on items within AOCI to retained earnings. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and nine months ended September 30, 2019.

Effective January 1, 2019, the Company adopted ASU no. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* to amend the accounting for share-based payment awards issued to nonemployees. Under the revised guidance, the accounting for awards issued to nonemployees will be

similar to the model for employee awards, except the ASU allows an entity to elect on an award-by-award basis to use the contractual term as the expected term assumption in the option pricing model, and the cost of the grant is recognized in the same period(s) and in the same manner as if the grantor had paid cash. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and nine months ended September 30, 2019.

Recently Issued Accounting Pronouncements

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 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 August 2018, the FASB issued ASU no. 2018-13, *Fair Value Measurement (Topic 820)*; which changes the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting. The FASB used the guidance in the Concepts Statement to improve the effectiveness of ASC 820's disclosure requirements. The objective of the disclosure requirements in this subtopic is to provide users of financial statements with information about assets and liabilities measured at fair value in the statement of financial position or disclosed in the notes to financial statements. The ASU includes but is not limited to the valuation techniques and inputs that a reporting entity uses to arrive at its measures of fair value, including judgments and assumptions that the entity makes, the uncertainty in the fair value measurements as of the reporting date, and how changes in fair value measurements affect an entity's performance and cash flows. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. 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 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. Business Combinations

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

Assets Acquired:	
Cash and cash equivalents	\$ 5,595
Accounts receivable	25,740
Other current assets	2,282
Inventories, net	1,137
Property, plant, and equipment, net	4,747
Deferred income tax assets	6,316
Other noncurrent assets	522
Intangible assets, net	3,525
Goodwill	1,493
Total identifiable assets acquired	\$ 51,357
Liabilities Assumed:	
Accounts payable	\$ (5,596)
Income tax payable	(5)
Accrued liabilities	(6,593)
Accrued compensation and benefits	(7,079)
Deferred revenue	(880)
Current portion of long term debt	(994)
Customer deposits	(462)
Pension liabilities	(7,135)
Other long-term liabilities	(1,324)
Deferred income tax liabilities	(1,171)
Capital lease obligations, net of current maturities	(650)
Total liabilities assumed	\$ (31,889)
Total Consideration	\$ 19,468

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, the Company expects 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, 2019 the Company recognized \$17.0 million and \$56.8 million in revenue related to Asterion in the Consolidated Statement of Operations.

4. Significant Accounting Policies

The information presented below supplements the Significant Accounting Policies information presented in our 2018 Form 10-K, including Revenue Recognition for the adoption of ASC 606 (ASU 2014-09: Revenue from Contracts with Customers), which became effective January 1, 2018. See our 2018 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 related 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.

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, 2019 and 2018:

	Three Months Ended September 30,					
	2019			2018		
	ITPS	HS	LLPS	ITPS	HS	LLPS
United States	\$ 229,492	\$ 62,132	\$ 18,806	\$ 248,055	\$ 56,776	\$ 18,941
Europe	55,836	—	—	52,602	—	—
Other	6,651	—	—	6,656	—	—
Total	<u>\$ 291,979</u>	<u>\$ 62,132</u>	<u>\$ 18,806</u>	<u>\$ 307,313</u>	<u>\$ 56,776</u>	<u>\$ 18,941</u>

	Nine Months Ended September 30,					
	2019			2018		
	ITPS	HS	LLPS	ITPS	HS	LLPS
United States	\$ 718,936	\$ 186,915	\$ 54,217	\$ 782,870	\$ 171,722	\$ 65,476
Europe	186,337	—	—	146,242	—	—
Other	20,436	—	—	20,269	—	—
Total	<u>\$ 925,709</u>	<u>\$ 186,915</u>	<u>\$ 54,217</u>	<u>\$ 949,381</u>	<u>\$ 171,722</u>	<u>\$ 65,476</u>

Contract Balances

The following table presents contract assets and contract liabilities recognized at September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Accounts receivable, net	\$ 260,438	\$ 270,812
Deferred revenues	17,782	16,940
Costs to obtain and fulfill a contract	24,212	18,624
Customer deposits	30,161	34,235

Accounts receivable, net includes \$37.6 million and \$39.5 million as of September 30, 2019 and December 31, 2018, 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 \$12.8 million during the nine months ended September 30, 2019 that had been deferred as of December 31, 2018.

Costs incurred to obtain and fulfill contracts are deferred and expensed on a straight-line basis over the estimated benefit period. We recognized \$8.4 million of amortization for these costs in the first nine months of 2019 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, 2018 were used to pay for postage with the corresponding postage revenue being recognized during the nine months ended September 30, 2019.

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 and have the same pattern of transfer over time, with the corresponding remaining performance obligations as of September 30, 2019 in each of the future periods below:

Estimated Remaining Fixed Consideration for Unsatisfied Performance Obligations

Remainder of 2019	\$ 17,335
2020	52,951
2021	42,443
2022	31,951
2023	27,775
2024 and thereafter	54,159
Total	\$ 226,614

5. Leases

The following table summarizes the impact of the changes made to the January 1, 2019 consolidated balance sheet for the adoption of the new accounting standard pertaining to leases. The prior periods have not been restated and have been reported under the accounting standard in effect for those periods.

	Balance at December 31, 2018	Impact of Lease Standard	Balance at January 1, 2019
Total assets	\$1,639,782	\$ 102,651	\$1,742,433
Total current liabilities	432,722	25,304	458,026
Total long-term liabilities	1,820,788	79,703	1,900,491

The increase in total assets and total liabilities at September 30, 2019 from December 31, 2018 was primarily due to the impact from the adoption of the new accounting standard pertaining to lease arrangements. See Note 2 for additional information on the impact of the adoption of this standard.

The Company determines if a contract is, or contains, a lease at contract inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current portion of operating lease liabilities and operating lease liabilities, net of current portion in the Company's unaudited consolidated balance sheets. Finance leases are included in property

and equipment, current portion of finance lease obligations and finance lease obligations, net of current portion in the Company's unaudited consolidated balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. In addition, ROU assets include initial direct costs incurred by the lessee as well as any lease payments made at or before the commencement date, and exclude lease incentives. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Leases with a term of one year or less are generally not included in ROU assets and liabilities.

Operating lease ROU assets and operating lease liabilities are recorded on the consolidated balance sheet as follows:

	September 30, 2019
<i>Balance sheet location:</i>	
Operating Lease	
Operating lease right-of-use assets, net	\$ 93,352
Current portion of operating lease liabilities	26,604
Operating lease liabilities, net of current portion	71,661
Finance Lease	
Finance lease right-of-use assets, net (included in property, plant and equipment, net)	28,394
Current portion of finance lease liabilities	15,172
Finance lease liabilities, net of current portion	24,159

As of September 30, 2019, weighted-average remaining lease term of operating leases and finance leases was 4.89 years and 3.41 years, respectively. The weighted-average discount rate for operating leases and finance leases was 10.39% and 8.84%, respectively.

The interest on financing lease liabilities for the three and nine months ended September 30, 2019 was \$0.9 million and \$2.5 million, respectively. The amortization expense on finance lease right-of-use assets for the three and nine months ended September 30, 2019 was \$3.7 and \$10.7 million, respectively.

The following table summarizes maturities of finance and operating lease liabilities based on lease term as of September 30, 2019:

	Finance Leases	Operating Leases
Remainder of 2019	\$ 6,554	\$ 8,469
2020	14,931	24,803
2021	11,587	19,707
2022	5,470	15,651
2023	2,847	11,721
2024 and thereafter	4,120	23,244
Total lease payments	45,509	103,595
Less: Imputed interest	6,178	5,380
Present value of lease liabilities	\$ 39,331	\$ 98,265

At December 31, 2018, the Company had the following future minimum payments due under non-cancelable leases:

	Finance Leases	Operating Leases
2019	\$ 20,080	\$ 38,057
2020	11,851	29,346
2021	9,018	22,239
2022	4,169	16,782
2023	2,244	12,302
2024 and thereafter	3,617	18,874
Total minimum lease payments	<u>\$ 50,979</u>	<u>\$ 137,600</u>
Less: imputed interest	6,743	
Total net minimum lease payments	<u>44,236</u>	
Less: Current portion of obligations under finance leases	17,498	
Long-term portion of obligations under finance leases	<u>\$ 26,738</u>	

Consolidated rental expense for all operating leases was \$83.8 million for the year ended December 31, 2018. Consolidated rental expense for all operating leases was \$19.0 million and \$56.4 million for the three and nine months ended September 30, 2019, respectively.

The following table summarizes the cash paid and related right-of-use operating finance or operating lease recognized for the nine months ended September 30, 2019.

	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 28,831
Financing cash flows from finance leases	13,598
Right-of-use lease assets obtained in the exchange for lease liabilities:	
Operating leases	3,894
Finance leases	9,352

6. Intangibles Assets and Goodwill

Intangible Assets

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

	September 30, 2019		Intangible Asset, net
	Gross Carrying Amount (a)	Amortization	
Customer relationships	\$ 507,901	\$ (226,123)	\$ 281,778
Developed technology	89,053	(86,966)	2,087
Trade names (b)	8,400	(3,100)	5,300
Outsource contract costs	60,514	(36,303)	24,212
Internally developed software	41,971	(9,956)	32,015
Trademarks	23,378	(23,370)	8
Non compete agreements	1,350	(1,350)	—
Assembled workforce	4,473	(839)	3,634
Purchased software	26,749	(1,337)	25,412
Intangibles, net	<u>\$ 763,789</u>	<u>\$ (389,344)</u>	<u>\$ 374,445</u>

	December 31, 2018		
	Gross Carrying Amount (a)	Amortization	Intangible Asset, net
Customer relationships	\$ 507,905	\$ (190,666)	\$ 317,239
Developed technology	89,053	(85,967)	3,086
Trade names (c)	9,400	(3,100)	6,300
Outsource contract costs	46,342	(27,719)	18,623
Internally developed software	36,820	(6,278)	30,542
Trademarks	23,379	(23,370)	9
Non compete agreements	1,350	(1,350)	—
Assembled workforce	4,473	—	4,473
Purchased software	26,749	—	26,749
Intangibles, net	<u>\$ 745,471</u>	<u>\$ (338,450)</u>	<u>\$ 407,021</u>

- (a) Amounts include intangible assets acquired in business combinations and asset acquisitions.
- (b) The carrying amount of trade names for September 30, 2019 is net of accumulated impairment losses of \$44.1 million, of which \$1.0 million was recognized in the nine months ended September 30, 2019.
- (c) The carrying amount of trade names for 2018 is net of accumulated impairment losses of \$43.1 million, of which \$3.7 million was recognized in 2018.

Goodwill and other indefinite-lived assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. We conduct our annual goodwill and indefinite-lived assets impairment tests on October 1st of each year, or more frequently if indicators of impairment exist. The Company utilizes the Income Approach, specifically the Relief-from-Royalty method, to determine the fair value of the indefinite-lived assets. The Company uses a combination of the Guideline Public Company Method of the Market Approach and the Discounted Cash Flow Method of the Income Approach to determine the reporting unit fair value for goodwill impairment.

During the three months ended September 30, 2019, the Company made an evaluation based on factors such as changes in the Company's growth rate and recent trends in the Company's market capitalization, and concluded that a triggering event for an interim impairment analysis had occurred in the third quarter of 2019. As part of the assessment, it was determined that the increase in the discount rate applied in the valuation was required to reflect current market dynamics and company-specific risk. This higher discount rate, in conjunction with revised long-term projections, resulted in lower than previously projected long-term future cash flows for the reporting units which reduced the estimated fair value to below carrying value. As a result of the interim impairment assessment, the Company recorded an impairment charge to goodwill and trade names of \$98.7 million, including taxes, and \$1.0 million, respectively. The impairment charges are included within Impairment of goodwill and other intangible assets in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019.

Goodwill

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 (See Note 15).

Goodwill by reporting segment consists of the following:

	Goodwill	Additions	Reductions	Currency Translation Adjustments	Goodwill (a)
ITPS	\$ 566,215	\$ 5,580 (c)	\$ —	\$ (220)	\$ 571,575
HS	86,786	—	—	—	86,786
LLPS	94,324	—	(44,427)(b)	—	49,897
Balance as of December 31, 2018	\$ 747,325	\$ 5,580	\$ (44,427)	\$ (220)	\$ 708,258
ITPS	571,575	—	(90,361)(d)	(118)	481,096
HS	86,786	—	—	—	86,786
LLPS	49,897	—	(8,321)(e)	—	41,576
Balance as of September 30, 2019	\$ 708,258	\$ —	\$ (98,682)	\$ (118)	\$ 609,458

- (a) The goodwill amount for all periods presented is net of accumulated impairment losses of \$167.9 million.
- (b) The reduction in goodwill is due to \$44.4 million, including taxes, for impairment recorded in the fourth quarter of 2018.
- (c) Addition to goodwill due to the acquisition of Asterion and immaterial acquisitions in the third and fourth quarters of 2018.
- (d) The reduction in goodwill is due to \$90.4 million, including taxes, for impairment recorded in the third quarter of 2019.
- (e) The reduction in goodwill is due to \$8.3 million, including taxes, for impairment recorded in the third quarter of 2019.

7. 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.

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. As of September 30, 2019 and December 31, 2018, the Company had outstanding irrevocable letters of credit totaling approximately \$21 million and \$20.6 million, respectively, under the senior secured revolving facility.

The Credit Agreement provided 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.

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 Repricing and Exela’s debt structure after the Repricing, 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 1.0% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.5%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.0%, in each case plus an applicable margin of 6.5% for LIBOR loans and 5.5% 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 prior senior secured term loans.

2018 Incremental Term Loans

On July 13, 2018, the Company successfully borrowed an additional \$30.0 million pursuant to incremental term loans (the “2018 Incremental Term Loans”) under the First Amendment. The proceeds of the 2018 Incremental Term Loans were 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 2018 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.

Other than as described above, the terms, conditions and covenants applicable to the Repricing Term Loans and the 2018 Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the existing senior secured term loans under the Credit Agreement. The Repricing and issuance of the 2018 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.

2019 Incremental Term Loan

On April 16, 2019, the Company successfully borrowed an additional \$30.0 million pursuant to incremental term loans (the “2019 Incremental Term Loans”) under the Second Amendment to First Lien Credit Agreement (the “Second

Amendment”). The proceeds of the 2019 Incremental Term Loans were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings and for general corporate purposes.

The 2019 Incremental Term Loans will bear interest at a rate per annum that is the same as the Company’s Repricing Term Loans under the senior credit facility. The 2019 Incremental Term Loans will mature on July 12, 2023, the same maturity date as the Term Loans.

The Company may voluntarily repay the 2019 Incremental Term Loans at any time, without prepayment premium or penalty, subject to customary “breakage” costs with respect to LIBOR rate loans.

Other than as described above, the terms, conditions and covenants applicable to the 2019 Incremental Term Loans are consistent with the terms, conditions and covenants that are applicable to the Repricing Term Loans and 2018 Incremental Term Loans under the Credit Agreement and which are described in the registrant’s Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 18, 2017 and July 17, 2018. The Repricing and issuance of the 2018 and 2019 Incremental Term Loans resulted in a partial debt extinguishment, for which Exela recognized \$1.4 million in debt extinguishment costs in the second quarter of 2019.

Long-Term Debt Outstanding

As of September 30, 2019 and December 31, 2018, the following long-term debt instruments were outstanding:

	September 30, 2019	December 31, 2018
Other (a)	\$ 23,904	\$ 25,321
First lien credit agreement (b)	364,068	335,896
Senior secured notes (c)	977,848	974,443
Revolver	39,000	—
Total debt	1,404,820	1,335,660
Less: Current portion of long-term debt	(37,237)	(29,237)
Long-term debt, net of current maturities	\$ 1,367,583	\$ 1,306,423

- (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 \$6.9 million and \$20.1 million as of September 30, 2019 and \$8.3 million and \$24.5 million as of December 31, 2018.
- (c) Net of unamortized debt discount and debt issuance costs of \$15.8 million and \$6.3 million as of September 30, 2019 and \$18.2 million and \$7.3 million as of December 31, 2018.

8. Income Taxes

The Company applies an estimated annual effective tax rate (“ETR”) approach for calculating a tax provision for interim periods, as required under GAAP. The Company recorded an income tax benefit of \$3.8 million and \$0.7 million for the three months ended September 30, 2019 and 2018, respectively. The Company recorded an income tax expense of \$5.7 million and \$4.9 million for the nine months ended September 30, 2019 and 2018, respectively.

The Company’s ETR of (2.7%) and (3.0%) for the three and nine months ended September 30, 2019 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”).

For the three and nine months ended September 30, 2018, the Company’s ETR of 2.5% and (6.7%) 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 U.S. disallowed interest expense carryforward's created by the provisions of the TCJA.

As of September 30, 2019, 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, 2018. The Company's valuation allowances have increased by approximately \$28.8 million from December 31, 2018 to September 30, 2019 due largely to effects of TCJA relating to interest expense.

9. 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 or its predecessors 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.

Norway Pension Plan

The Company's subsidiary in Norway provides pension benefits to eligible retirees and eligible dependents. Employees eligible for participation include all employees who were more than three years from retirement prior to March 2018. 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.

Asterion Pension Plan

The Company acquired certain pension benefit obligations to eligible retirees and eligible dependents in 2018 pursuant to the Asterion Business Combination. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to July 2003. 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. As there are no active employees for this plan there are no earned pension entitlements and actuarial assumptions are only measured when assumptions are changed.

Tax Effect on Accumulated Other Comprehensive Loss

As of September 30, 2019 and December 31, 2018 the Company recorded actuarial losses of \$8.9 million and \$9.3 million in accumulated other comprehensive loss on the condensed consolidated balance sheets, respectively, which are net of a deferred tax benefit of \$1.7 million.

Pension Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Service cost	\$ 23	\$ 27	\$ 68	\$ 56
Interest cost	592	569	1,777	1,686
Expected return on plan assets	(612)	(701)	(1,837)	(2,076)
Amortization:				
Amortization of prior service cost	25	(34)	76	(102)
Amortization of net (gain) loss	406	433	1,218	1,294
Net periodic benefit cost	\$ 434	\$ 294	\$ 1,302	\$ 858

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 \$2.2 million and \$2.3 million to its pension plans during the nine months ended September 30, 2019 and 2018, respectively. The Company has funded the pension plans with the required contributions for 2019 based on current plan provisions.

10. Commitments and Contingencies

Appraisal Demand

On September 21, 2017, former stockholders of SourceHOV Holdings, Inc. ("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 Manichaeon Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the acquisition of SourceHOV and Novitex Holdings, Inc., by Quinpario in July 2017 ("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 SourceHOV shares at the time of the Novitex Business Combination.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The Court conducted a trial in June 2019, the parties submitted post-trial briefs in August 2019, and final arguments were held in October 2019. The Court's decision remains pending, but is expected by the end of January 2020. The parties and their experts have offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. SourceHOV argues the value was no more than \$1,633.85 per share and the petitioners argue the value was at least \$5,079.28 per share. Interest accrues on the value of the shares from the date of the Business Combination, resulting in a potential range of values based on the respective proposals of approximately \$19.6 million to \$61.0 million as of September 30, 2019. The Company believes the petitioners' claims of value of the SourceHOV shares are without merit and will continue to defend its position vigorously.

The Court may determine a fair value that is above or below the values indicated by the parties and their experts. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate what the Court will determine the fair value of SourceHOV common stock to be as of the date of the Novitex Business Combination. As a result of the Appraisal Action, 4,570,734 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 and pursuant to the terms of the Consent, Waiver and Amendment, dated June 15, 2017) is repaid.

11. 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, 2019, and December 31, 2018, due to the relative short maturity of these instruments. Management estimates the fair values of the secured term loan and secured notes at approximately 59.5% and 55.0% respectively, of the respective principal balance outstanding as of September 30, 2019. The fair value is substantially less than the carrying 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 Company determined the fair value of the interest rate swap using Level 2 inputs. The Company uses closing prices as provided by a third party institution.

The following table provides the carrying amounts and estimated fair values of the Company's financial instruments as of September 30, 2019, and December 31, 2018:

As of September 30, 2019	Carrying Amount	Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
Recurring assets and liabilities:					
Long-term debt	\$ 1,367,583	\$ 769,403	\$ —	\$ 769,403	\$ —
Interest rate swap liability	1,128	1,128	—	1,128	—
Acquisition contingent liability	\$ 721	\$ 721	\$ —	\$ —	\$ 721
Nonrecurring assets and liabilities:					
Goodwill	609,458	609,458	—	—	609,458
As of December 31, 2018					
	Carrying Amount	Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
Recurring assets and liabilities:					
Long-term debt	\$ 1,306,423	\$ 1,316,306	\$ —	\$ 1,316,306	\$ —
Interest rate swap asset	3,836	3,836	—	3,836	—
Acquisition contingent liability	\$ 721	\$ 721	\$ —	\$ —	\$ 721
Nonrecurring assets and liabilities:					
Goodwill	708,258	708,258	—	—	708,258

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:

	September 30, 2019	December 31, 2018
Balance as of Beginning of Period	\$ 721	\$ 721
Payments/Reductions	—	—
Balance as of End of Period	<u>\$ 721</u>	<u>\$ 721</u>

During the three months ended September 30, 2019, goodwill impairment charges totaling \$98.7 million, including taxes, were recognized within our ITPS and LLPS segments (See Note 6).

12. 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 (“Ex-Sigma”), an entity formed by the former SourceHOV equity holders, which is also indirectly the Company’s principal stockholder. In accordance with 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 three or four years vested in April 2019. As of September 30, 2019, because all shares vested in April 2019, there are no nonvested shares related to the 2013 Plan.

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. 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 unit awards generally vest ratably over a one to two year period. 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, 2019 is presented as follows:

	Number of Shares	Weighted Average Grant Date Fair Value	Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance as of December 31, 2018	893,297	\$ 5.86	0.76	\$ 5,239
Shares granted	268,607			
Shares forfeited	(151,067)			
Shares vested	(610,482)			
Balance as of September 30, 2019	<u>400,355</u>	<u>\$ 2.12</u>	<u>1.43</u>	<u>\$ 849</u>

The majority of the RSUs that vested in the three months ended September 30, 2019 were net-share settled such that the Company withheld shares with value equivalent to the employee’s minimum statutory obligation for applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld were 194,010 shares and were based on the value of the RSUs on their respective vesting dates as determined by the Company’s closing stock price. Total payment for the employee’s tax obligations to taxing authorities were \$0.2 million and is reflected as a financing activity within the Condensed Consolidated Statements of Cash flows.

Options

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. Options granted under the 2018 Plan generally require no less than a two or four year ratable vesting period. Stock option activity in the first nine months of 2019 is summarized in the following table:

	<u>Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Average Remaining Vesting Period (Years)</u>	<u>Aggregate Intrinsic Value</u>
Balance as of December 31, 2018	3,570,300	\$ 6.06	2.92	\$ 9,590
Granted	2,050,600			
Exercised	—			
Forfeited	(618,200)			
Expired	—			
Balance as of September 30, 2019	<u>5,002,700</u>	<u>\$ 4.13</u>	<u>2.74</u>	<u>\$ 9,864</u>

As of September 30, 2019, there was approximately \$7.5 million of total unrecognized compensation expense related to non-vested awards for the 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 \$1.4 million and \$6.9 million related to plan awards for the three and nine months ended September 30, 2019 and \$1.6 million and \$4.5 million related to plan awards for the three and nine months ended September 30, 2018.

13. 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. Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock, the holders of 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 Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of 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. In August 2019, 150,000 shares of Series A Preferred Stock were converted into 183,389 shares of Common Stock. As of September 30, 2019 and December 31, 2018, there were 153,486,011 and 152,692,140 shares of Common Stock issued, respectively. As of September 30, 2019 and December 31, 2018, there were 150,698,864 and 150,142,955 shares outstanding, respectively.

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, 2019 and December 31, 2018, the Company had 4,419,233 shares and 4,569,233 shares of Series A Preferred Stock outstanding, respectively. The par value of Series A Preferred Stock is \$0.0001 per share. Each share of Series A 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 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 months ended September 30, 2019 and 2018 this amount was \$0.9 million as reflected on the Consolidated Statement of Operations. For the nine months ended September 30, 2019 and 2018 this amount was \$2.7 million as reflected on the Consolidated Statement of Operations. The cumulative accrued but unpaid dividends of the Series A Preferred Stock since their inception on July 12, 2017 is \$8.9 million. The per share averages of cumulative preferred dividends for the three and nine months ended September 30, 2019 and 2018 are \$0.2.

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 was authorized to purchase, from time to time, up to 5,000,000 shares of its Common Stock through various means, including, open market transactions and privately negotiated transactions. The decision as to whether to purchase any shares and the timing of purchases was 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 did not obligate the Company to purchase any shares and has expired. The Company purchased 237,962 shares during the nine months ended September 30, 2019 under the Share Buyback Program. No shares were repurchased during the three months ended September 30, 2019. As of September 30, 2019, a total of 2,787,147 shares had been repurchased under the Share Buyback Program and are held in treasury stock. The Company records treasury stock using the cost method.

Warrants

At September 30, 2019 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, 2019.

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 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.

14. Related-Party Transactions

Operating Facility Leases

Certain operating companies lease their operating facilities from HOV RE, LLC and HOV Services Limited, which are affiliates under common control with Ex-Sigma. The rental expense for these operating leases was \$0.1 million and \$0.2 million for the three months ended September 30, 2019 and 2018, respectively, and \$0.3 million and \$0.5 million for the nine months ended September 30, 2019 and 2018, respectively.

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, 2019 and 2018, respectively. The expense recognized for these services was \$0.1 million for the nine months ended September 30, 2019 and 2018, respectively.

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 for the nine months ended September 30, 2018. 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 and for the three and nine months ended September 30, 2019.

Relationship with HandsOn Global Management

Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and a subsidiary of the Company, the Company incurs marketing fees to Rule 14, LLC, a portfolio company of HandsOn Fund 4 I, LLC ("HGM"). Similarly, the Company 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 the Company with free use of certain technology and includes a reseller arrangement pursuant to which the Company is entitled to sell these services to third parties. Any revenue earned by the Company in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of the Company. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM managed funds. The Company has the license to use and resell such brands, as described therein. The fee relating to these agreements was \$0.2 million for the three months ended September 30, 2019 and 2018, respectively. The Company incurred fees relating to these agreements of \$0.3 million and \$0.6 million for the nine months ended September 30, 2019 and 2018, 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. The expense recognized for these services was \$0.4 million for the three months ended September 30, 2019 and 2018, respectively, and \$1.1 million and \$1.2 million for the nine months ended September 30, 2019 and 2018, respectively. These expenses are included in cost of revenue in the consolidated statements of operations.

Relationship with Apollo Global Management, LLC

The Company provides services to and receives services from certain Apollo Global Management, LLC ("Apollo") affiliated companies. Funds managed by Apollo have the right to designate two of the Company's directors. On November 18, 2014, one of the Company's subsidiaries entered into a master services agreement with an indirect wholly owned subsidiary of Apollo. Pursuant to this master services agreement, the Company provides printer supplies and maintenance services, including toner maintenance, training, quarterly business review and printer procurement. The

Company recognized revenue of \$0.1 million in our consolidated statements of operations from Apollo affiliated companies under this agreement for the three months ended September 30, 2019 and 2018, respectively. The company recognized revenue of \$0.4 million and \$0.5 million for the nine months ended September 30, 2019 and 2018, respectively, in our consolidated statements of operations from Apollo affiliated companies under this agreement.

On January 18, 2017, one of the Company's subsidiaries 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, the Company provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. The Company recognized revenue of approximately \$1.1 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the three months ended September, 2019 and 2018, respectively. The Company recognized revenue of approximately \$3.3 million and \$3.1 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the nine months ended September 30, 2019 and 2018, respectively.

On May 5, 2017, one of the Company's subsidiaries 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, the Company 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. The Company recognized revenue of \$0.3 million and \$0.2 million in our consolidated statements of operations from ADT LLC under this master services agreement for the three months ended September 30, 2019 and 2018, respectively. The Company recognized revenue of \$0.9 million and \$0.4 million in our consolidated statements of operations from ADT LLC under this master services agreement for the nine months ended September 30, 2019 and 2018, respectively.

On July 20, 2017, one of the Company's subsidiaries 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, the Company 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 \$1.4 million and \$0.7 million for the three months ended September 30, 2019 and 2018, respectively, from Diamond Resorts Centralized Services Company under this master services agreement. The Company recognized revenue of \$4.0 million and \$4.9 million for the nine months ended September 30, 2019 and 2018, respectively, and related party expense of \$0.1 million for the nine months ended September 30, 2019 and 2018, respectively, from Diamond Resorts Centralized Services Company under this master services agreement.

In April 2016, one of the Company's subsidiaries 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. Pursuant to this master services agreement, Presidio Group provides the Company with employees, subcontractors, and/or goods and services. For the three months ended September 30, 2019 and 2018 there were related party expenses of \$0.4 million and \$0.2 million, respectively, for this service. For the nine months ended September 30, 2019 and 2018 there were related party expenses of \$0.7 million and \$0.5 million, respectively, for this service.

In June 2019, one of the Company's subsidiaries entered into a master lease agreement with Presidio Technology Capital, LLC ("Presidio Capital"), a wholly owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo. Pursuant to this master lease agreement, Presidio Capital provides the Company certain equipment on finance lease. The Company recorded a finance lease liability of \$1.0 million for this lease. As of September 30, 2019 total finance lease liability of the Company included \$1.0 million pertaining to this lease.

Payable and Receivable Balances with Affiliates

Payable and receivable balances with affiliates as of September 30, 2019 and December 31, 2018 are as follows below. As of December 31, 2018 there were no related party receivables.

	September 30, 2019		December 31, 2018
	Receivable	Payable	Payable
HOV Services, Ltd	\$ —	\$ 23	\$ 405
Rule 14	—	198	127
HGM	42	—	6,998
Apollo affiliated company	—	53	205
	<u>\$ 42</u>	<u>\$ 274</u>	<u>\$ 7,735</u>

15. Segment and Geographic Area 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: The 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: The HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets.

LLPS: The 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 cost of revenue. 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, 2019			Total
	ITPS	HS	LLPS	
Revenue	\$ 291,979	\$ 62,132	\$ 18,806	\$ 372,917
Cost of revenue	239,388	40,973	10,861	291,222
Selling, general and administrative expenses				50,372
Depreciation and amortization				27,114
Impairment of goodwill and other intangible assets				99,682
Related party expense				1,405
Interest expense, net				39,747
Debt modification and extinguishment costs				—
Sundry income, net				(10)
Other expense, net				581
Net loss before income taxes				<u>\$ (137,196)</u>

	Three months ended September 30, 2018			
	<u>ITPS</u>	<u>HS</u>	<u>LLPS</u>	<u>Total</u>
Revenue	\$ 307,313	\$ 56,776	\$ 18,941	\$ 383,030
Cost of revenue	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
Debt modification and extinguishment costs				1,067
Sundry income, net				(2,571)
Other income, net				(781)
Net loss before income taxes				<u>\$ (29,673)</u>

	Nine months ended September 30, 2019			
	<u>ITPS</u>	<u>HS</u>	<u>LLPS</u>	<u>Total</u>
Revenue	\$ 925,709	\$ 186,915	\$ 54,217	\$ 1,166,841
Cost of revenue	743,557	119,816	32,737	896,110
Selling, general and administrative expenses				151,884
Depreciation and amortization				82,326
Impairment of goodwill and other intangible assets				99,682
Related party expense				3,454
Interest expense, net				117,778
Debt modification and extinguishment costs				1,404
Sundry expense, net				1,028
Other expense, net				4,965
Net loss before income taxes				<u>\$ (191,790)</u>

	Nine months ended September 30, 2018			
	<u>ITPS</u>	<u>HS</u>	<u>LLPS</u>	<u>Total</u>
Revenue	\$ 949,381	\$ 171,722	\$ 65,476	\$ 1,186,579
Cost of revenue	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
Debt modification and extinguishment costs				1,067
Sundry income, net				(4,961)
Other income, net				(4,813)
Net loss before income taxes				<u>\$ (73,205)</u>

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, estimated or anticipated future results and benefits, future opportunities for Exela, 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, 2018 (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 September 30, 2019, 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 may 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

Exela is a business process automation (“BPA”) leader, leveraging a global footprint and proprietary technology to provide digital transformation solutions enhancing quality, productivity, and end-user experience. With decades of expertise operating mission-critical processes, Exela serves a growing roster of more than 4,000 customers throughout 50 countries, including over 60% of the Fortune 100. With foundational technologies spanning information management, workflow automation, and integrated communications, Exela’s software and services include multi-industry department solution suites addressing finance and accounting, human capital management, and legal management, as well as industry-specific solutions for banking, healthcare, insurance, and public sectors. Through cloud-enabled platforms, built on a configurable stack of automation modules, and over 22,000 employees operating in 23 countries, Exela rapidly deploys integrated technology and operations as an end-to-end digital journey partner.

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.

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 customers 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, decisioning 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, 7 of the top 10 U.S. insurance companies, 4 of the top 5 U.S. telecom companies, over 40 utility companies, and over 400 state and local 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: Our HS segment 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 customer base consists of corporate counsel, government attorneys, and law firms.

Acquisitions

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 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 \$200.0 million in annual revenue. This acquisition not only enables Asterion’s customers to access Exela’s full suite of BPA solutions but also strategically positions 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 \$175.6 million and \$168.8 million for the three months ended September 30, 2019 and 2018, respectively. We incurred personnel costs of \$534.7 million and \$516.5 million for the nine months ended September 30, 2019 and 2018, respectively. The majority of our personnel costs are variable and 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 by segment

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, 2019 compared to Three Months Ended September 30, 2018:

	<u>Three Months Ended September 30,</u>		<u>Change</u>	<u>% Change</u>
	<u>2019</u>	<u>2018</u>		
Revenue:				
ITPS	\$ 291,979	\$ 307,313	\$ (15,334)	-4.99%
HS	62,132	56,776	5,356	9.43%
LLPS	18,806	18,941	(135)	-0.71%
Total revenue	<u>372,917</u>	<u>383,030</u>	<u>(10,113)</u>	<u>-2.64%</u>
Cost of revenue (exclusive of depreciation and amortization):				
ITPS	239,388	246,492	(7,104)	-2.88%
HS	40,973	36,919	4,054	10.98%
LLPS	10,861	12,525	(1,664)	-13.29%
Total cost of revenues	<u>291,222</u>	<u>295,936</u>	<u>(4,714)</u>	<u>-1.59%</u>
Selling, general and administrative expenses	50,372	44,913	5,459	12.15%
Depreciation and amortization	27,114	35,041	(7,927)	-22.62%
Impairment of goodwill and other intangible assets	99,682	—	99,682	100.00%
Related party expense	1,405	759	646	85.11%
Operating income (loss)	<u>(96,878)</u>	<u>6,381</u>	<u>(103,259)</u>	<u>-1618.23%</u>
Interest expense, net	39,747	38,339	1,408	3.67%
Debt modification and extinguishment costs	—	1,067	(1,067)	-100.00%
Sundry expense (income), net	(10)	(2,571)	2,561	-99.61%
Other expense (income), net	581	(781)	1,362	-174.39%
Net loss before income taxes	(137,196)	(29,673)	(107,523)	362.36%
Income tax benefit (expense)	3,769	733	3,036	414.19%
Net loss	<u>\$ (133,427)</u>	<u>\$ (28,940)</u>	<u>\$ (104,487)</u>	<u>361.05%</u>

Revenue

Our ITPS, HS, and LLPS segments constituted 78.3%, 16.7%, and 5.0% of total revenue, respectively, for the three months ended September 30, 2019, compared to 80.2%, 14.8%, and 5.0%, respectively, for the three months ended September 30, 2018. The revenue changes by reporting segment were as follows:

ITPS— The decrease was primarily attributable to a decline of \$15.6 million related to certain statements of work from one customer in the enterprise solutions business. This was partially offset by 2018 acquisitions and ramp up of new customers.

HS— The increase was primarily attributable to ramp up of new customers and acquisitions.

LLPS— Revenues remained flat for the comparable quarters.

Cost of Revenue

The cost of revenue changes by operating segment was as follows:

ITPS— Despite the decrease in postage pass through revenue in the current year and the exit of a low margin contract in the prior year, cost of revenue relative to revenue has increased by 1.8% over the prior year due to cost inflation and other factors.

HS— The increase primarily corresponded with the related revenue increase.

LLPS— The decrease was primarily attributable to cost rationalization within the group.

Selling, General and Administrative Expenses

For the three months ended September 30, 2019, SG&A was \$5.5 million higher than the three months ended September 30, 2018, mainly driven by higher legal and professional fees during the quarter.

Depreciation & Amortization

Amortization expenses were \$7.9 million lower for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018, as a result of accelerated trade name write off during the financial year 2018. The accelerated trade name write off ended on December 31, 2018.

Impairment of Goodwill and Other Intangible Assets

Impairment of goodwill and other intangible assets for the three months ended September 30, 2019 was \$99.7 million. During the three months ended September 30, 2019, the Company made an evaluation based on factors such as changes in the Company's growth rate and recent trends in the Company's market capitalization, and concluded that a triggering event for an interim impairment analysis had occurred in the third quarter of 2019. As a result of the interim impairment assessment, the Company recorded an impairment charge to goodwill and trade names of \$98.7 million, including taxes, and \$1.0 million, respectively.

Related Party Expenses

Related party expenses remained materially consistent with the prior year period.

Interest Expense

The Company pays interest on a semi-annual basis in the first and third quarters of each year; as such, interest expense remained materially consistent with the prior year period.

Sundry Expense (Income)

The increase of \$2.6 million over the prior year period was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

Other Income

The decrease of \$1.4 million over the prior year period 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 are recorded directly in earnings. For the three months ended September 30, 2019, the fair value of the interest swap decreased \$0.6 million and for the three months ended September 30, 2018, the fair value increased \$0.8 million resulting in a net change of \$1.4 million.

Income Tax (Expense) Benefit

We had an income tax benefit of \$3.8 million for the three months ended September 30, 2019, compared to an income tax benefit of \$0.7 million for the three months ended September 30, 2018. The change in the income tax benefit was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The change in the effective tax rate for the three months ended September 30, 2019, 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, 2019 compared to Nine Months Ended September 30, 2018:

	Nine Months Ended September 30,		Change	% Change
	2019	2018		
Revenue:				
ITPS	\$ 925,709	\$ 949,381	\$ (23,672)	-2.49%
HS	186,915	171,722	15,193	8.85%
LLPS	54,217	65,476	(11,259)	-17.20%
Total revenue	1,166,841	1,186,579	(19,738)	-1.66%
Cost of revenue (exclusive of depreciation and amortization):				
ITPS	743,557	752,796	(9,239)	-1.23%
HS	119,816	111,135	8,681	7.81%
LLPS	32,737	39,751	(7,014)	-17.64%
Total cost of revenues	896,110	903,682	(7,572)	-0.84%
Selling, general and administrative expenses	151,884	137,231	14,653	10.68%
Depreciation and amortization	82,326	109,428	(27,102)	-24.77%
Impairment of goodwill and other intangible assets	99,682	—	99,682	100.00%
Related party expense	3,454	3,267	187	5.72%
Operating income (loss)	(66,615)	32,971	(99,586)	-302.04%
Interest expense, net	117,778	114,883	2,895	2.52%
Debt modification and extinguishment costs	1,404	1,067	337	31.58%
Sundry expense (income), net	1,028	(4,961)	5,989	-120.72%
Other expense (income), net	4,965	(4,813)	9,778	-203.16%
Net loss before income taxes	(191,790)	(73,205)	(118,585)	161.99%
Income tax expense	(5,689)	(4,911)	(778)	15.84%
Net loss	\$ (197,479)	\$ (78,116)	\$ (119,363)	152.80%

Revenue

Our ITPS, HS, and LLPS segments constituted 79.3%, 16.0%, and 4.7% of total revenue, respectively, for the nine months ended September 30, 2019, compared to 80.0%, 14.5%, and 5.5%, respectively, for the nine months ended September 30, 2018. The revenue changes by reporting segment were as follows:

ITPS— The decrease was primarily attributable to a decline of \$55.6 million related to certain statements of work from one customer in the enterprise solutions business. The decrease was offset by an increase due to 2018 acquisitions and ramp up of new customers.

HS— The increase was primarily attributable to ramp up of new customers and acquisitions, offset by a decline in volume from a single customer who lost a contract from one of its customers.

LLPS— Revenues decreased due to a decline in legal claims administration services of \$8.6 million.

Cost of Revenue

The cost of revenue changes by operating segment was as follows:

ITPS— Despite the decrease in postage pass through revenue in the current year and the exit of a low margin contract in the prior year, cost of revenue relative to revenue has increased by 1.0% over the prior year due to cost inflation and other factors.

HS— The increases primarily corresponded with the related revenue increase.

LLPS— The decrease was primarily attributable to a corresponding decrease in revenue in legal claims administration services.

Selling, General and Administrative Expenses

For the nine months ended September 30, 2019, SG&A was \$14.7 million higher than the nine months ended September 30, 2018, mainly driven by higher stock compensation expense related to the equity awards granted to certain employees in the second half of 2018. The increase was also driven by higher legal, professional fee and higher investments in sales and strategy teams to drive the growth of the Company.

Depreciation & Amortization

Amortization expenses were \$27.1 million lower for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018, as a result of accelerated trade name write off during the financial year 2018. The accelerated trade name write off ended on December 31, 2018.

Impairment of Goodwill and Other Intangible Assets

Impairment of goodwill and other intangible assets for the nine months ended September 30, 2019 was \$99.7 million. During the three months ended September 30, 2019, the Company made an evaluation based on factors such as changes in the Company's growth rate and recent trends in the Company's market capitalization, and concluded that a triggering event for an interim impairment analysis had occurred in the third quarter of 2019. As a result of the interim impairment assessment, the Company recorded an impairment charge to goodwill and trade names of \$98.7 million, including taxes, and \$1.0 million, respectively.

Related Party Expenses

Related party expenses remained flat as compared with the prior year period.

Interest Expense

The Company pays interest on a semi-annual basis in the first and third quarters of each year; as such, interest expense remained materially consistent with the prior year period.

Sundry Expense (Income)

The increase of \$6.0 million over the prior year period was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

Other Income

The decrease of \$9.8 million over the prior year period 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 are recorded directly in earnings. For the nine months ended September 30, 2019, the fair value of the interest swap decreased \$5.0 million and for the nine months ended September 30, 2018, the fair value increased \$4.8 million, for a net decrease of \$9.8 million.

Income Tax (Expense) Benefit

We had an income tax expense of \$5.7 million for the nine months ended September 30, 2019, compared to an income tax expense of \$4.9 million for the nine months ended September 30, 2018. 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 change in the effective tax rate for the nine months ended September 30, 2019, 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 our 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, 2019 compared to the Three Months ended September 30, 2018

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, 2019 and 2018. 2018 reconciliation items between EBITDA and Adjusted EBITDA have been adjusted for comparability purposes in the table below. EBITDA and Adjusted EBITDA for the three months ended September 30, 2018 remains unchanged.

	Three Months Ended September 30,	
	2019	2018
Net Loss	\$ (133,427)	\$ (28,940)
Taxes	(3,769)	(733)
Interest Expense	39,747	38,339
Depreciation and Amortization	27,114	35,041
EBITDA	(70,335)	43,707
Optimization and restructuring expenses (1)	16,848	16,506
<i>Process transformation</i>	15,694	15,048
<i>Customer transformation</i>	1	—
<i>Mergers and acquisitions</i>	1,153	1,458
Transaction and integration costs (2)	1,155	220
Non-cash equity compensation (3)	1,444	1,621
Other charges including non-cash (4)	9,193	5,788
Loss (Gain) on sale of assets (5)	(22)	769
Debt modification and extinguishment costs	—	1,067
(Gain)/Loss on derivative instruments (6)	580	(781)
Impairment of goodwill and other intangible assets	99,682	—
Adjusted EBITDA	\$ 58,545	\$ 68,898

1. Adjustment represents net salary and benefits associated with positions, current vendor expenses and existing lease contracts that are part of the on-going savings and productivity improvement initiatives in process transformation, customer transformation and post-merger or acquisition integration.
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 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. Other charges include severance, retention bonus, facility consolidation and other transition costs.
5. Represents a loss/(gain) recognized on the disposal of property, plant, and equipment and other assets.
6. Represents the impact of changes in the fair value of an interest rate swap entered into during the fourth quarter of 2017.

EBITDA and Adjusted EBITDA

EBITDA was negative \$70.3 million for the three months ended September 30, 2019, compared to \$43.7 million for the three months ended September 30, 2018. The decrease in EBITDA for the three months ended September 30, 2019 was primarily attributable to the higher net loss and a \$99.7 million impairment of goodwill and trade name. Adjusted EBITDA was \$58.5 million for the three months ended September 30, 2019, compared to \$68.9 million for the three months ended September 30, 2018. The decrease in Adjusted EBITDA for the three months ended September 30, 2019 was primarily due to higher net loss. Foreign currency losses during the period impacted adversely as it is not part of adjustments to EBITDA or Adjusted EBITDA.

Nine Months ended September 30, 2019 compared to the Nine Months ended September 30, 2018

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 months ended September 30, 2019 and 2018. 2018

reconciliation items between EBITDA and Adjusted EBITDA have been adjusted for comparability purposes in the table below. EBITDA and Adjusted EBITDA for the nine months ended September 30, 2018 remains unchanged.

	Nine Months Ended September 30,	
	2019	2018
Net Loss	\$ (197,479)	\$ (78,116)
Taxes	5,689	4,911
Interest expense	117,778	114,883
Depreciation and amortization	82,326	109,428
EBITDA	8,314	151,106
Optimization and restructuring expenses (1)	59,217	35,128
<i>Process transformation</i>	55,197	33,671
<i>Customer transformation</i>	103	—
<i>Mergers and acquisitions</i>	3,917	1,458
Transaction and integration costs (2)	4,193	2,097
Non-cash equity compensation (3)	6,903	4,516
Other charges including non-cash (4)	16,975	17,302
Loss on sale of assets (5)	404	1,434
Loss on business disposals (6)	—	720
Debt modification and extinguishment costs	1,404	1,067
(Gain)/Loss on derivative instruments (7)	4,965	(4,813)
Impairment of goodwill and other intangible assets	99,682	—
Adjusted EBITDA	<u>\$ 202,057</u>	<u>\$ 208,558</u>

1. Adjustment represents net salary and benefits associated with positions, current vendor expenses and existing lease contracts that are part of the on-going savings and productivity improvement initiatives in process transformation, customer transformation and post-merger or acquisition integration.
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 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. Other charges include severance, retention bonus, facility consolidation and other transition costs.
5. Represents a loss recognized on the disposal of property, plant, and equipment and other assets.
6. Represents a loss recognized on the disposal of business.
7. Represents the impact of changes in the fair value of an interest rate swap entered into during the fourth quarter of 2017.

EBITDA and Adjusted EBITDA

EBITDA was \$8.3 million for the nine months ended September 30, 2019, compared to \$151.1 million for the nine months ended September 30, 2018. The decrease in EBITDA for the nine months ended September 30, 2019 was primarily attributable to the higher net loss and a \$99.7 million impairment of goodwill and trade name. Adjusted EBITDA was \$202.1 million for the nine months ended September 30, 2019, compared to \$208.6 million for the nine months ended September 30, 2018. The decrease in Adjusted EBITDA for the nine months ended September 30, 2019, was primarily due to a higher net loss. Foreign currency losses during the period impacted adversely as it is not part of adjustments to EBITDA or Adjusted EBITDA.

Liquidity and Capital Resources

Overview

Our primary source of liquidity is 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 \$40.0 to \$45.0 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 our senior secured credit facilities (the “Repricing Term 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 (the “Credit Agreement”).

On July 13, 2018, the Company borrowed a further \$30.0 million pursuant to incremental term loans under the Credit Agreement. On April 16, 2019, the Company borrowed an additional \$30.0 million pursuant to incremental term loans under the Credit Agreement. The proceeds of these incremental term loans (collectively, the “Incremental Term Loans”) were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings and for general corporate purposes.

The Repricing Term Loans and the Incremental Term Loans bear interest at a rate per annum consisting 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 1.0% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.5%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.0%, in each case plus an applicable margin of 6.5% for LIBOR loans and 5.5% for base rate loans. The Repricing Term Loans and the Incremental Term Loans will mature on July 12, 2023.

At September 30, 2019, cash and cash equivalents totaled \$15.2 million and we had availability of \$40.0 million under our senior secured revolving credit facility.

The Company is pursuing a debt reduction and liquidity improvement initiative that contemplates the pursuit of the sale of certain non-core businesses that are not central to the Company’s long-term strategic vision. The disposition of those businesses would reduce indebtedness and enhance the Company’s ability to focus on its core businesses. The Company has retained financial advisors to assist with the sale of select assets. As part of the initiative, the Company is also seeking to take steps in the near term to increase its liquidity to approximately \$125.0 million to \$150.0 million, which would allow it to increase its overall financial flexibility. The Company expects to use the net proceeds from the initiative for the repayment of debt, with a target reduction of \$150.0 to \$200.0 million. The Company has set a two-year timetable for completion of the initiative. There can be no assurance that the initiative or any particular element of the initiative will be consummated or will achieve its desired result.

Cash Flows

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

	Nine Months Ended September 30,			
	2019	2018	Change	% Change
Cash flow from operating activities	\$ (33,639)	\$ (2,280)	\$ (31,359)	1375.39%
Cash flow used in investing activities	(34,815)	(28,002)	(6,813)	24.33%
Cash flows (used in) provided by financing activities	39,854	(1,005)	40,859	-4065.57%
Subtotal	(28,600)	(31,287)	2,687	-8.59%
Effect of exchange rates on cash	(29)	(554)	525	-94.77%
Net increase/(decrease) in cash	(28,629)	(31,842)	3,213	-10.09%

Analysis of Cash Flow Changes between the Nine Months Ended September 30, 2019 and September 30, 2018

Operating Activities—The decrease of \$31.4 million in cash flows from operating activities for the nine months ended September 30, 2019 was primarily due to higher cash inflows in 2018 due to receipt of settlement funds for the legal business, higher gross profits, changes in accounts payable and accrued liabilities, and a decrease in related party payables in 2019. The decrease was offset by higher cash flows from accounts receivable in 2019.

Investing Activities—The decrease of \$6.8 million in cash used in investing activities was primarily due to higher outsourcing contract costs of \$9.0 million for the nine months ended September 30, 2019 due to the ramp of new revenue and \$2.0 million higher cash paid for developing internal software. The increase was offset by a \$3.0 million decrease in cash paid for adding property, plant and equipment and lower cash paid for acquisitions.

Financing Activities—The increase of \$40.9 million in cash provided by financing activities was primarily due to draw down of \$39.0 million from the senior secured revolving facility in third quarter of 2019 to fund the semi-annual interest payment on the senior secured notes.

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. The Credit Agreement provided 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 was 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 was 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.

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 1.0% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.5%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.0%, in each case plus an applicable margin of 6.5% for LIBOR loans and 5.5% 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. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the prior senior secured term loans. As of September 30, 2019, the interest rate applicable for the Repricing Term Loans was 8.85%.

Incremental Term Loans

On July 13, 2018, the Company successfully borrowed an additional \$30.0 million pursuant to incremental term loans (the “2018 Incremental Term Loans”) under the First Amendment to the Credit Agreement. The proceeds of the 2018 Incremental Term Loans were used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment.

On April 16, 2019, the Company successfully borrowed a further \$30.0 million pursuant to incremental term loans (the “2019 Incremental Term Loans”, and, together with the 2018 Incremental Term Loans, the “Incremental Term Loans”) under the Second Amendment to the Credit Agreement. The proceeds of the 2019 Incremental Term Loans were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings for general corporate purposes.

The Incremental Term Loans bear interest at a rate per annum that is the same as the Repricing Term Loans. The Incremental Term Loans will mature on July 12, 2023, the same maturity date as 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 1.0% prepayment premium or fee, as applicable.

Other than as described above, the terms, conditions and covenants applicable to the Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Repricing Term Loans under the Credit Agreement and which are described in the registrant’s Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 18, 2017 and July 17, 2018.

Letters of Credit

As of September 30, 2019 and December 31, 2018, we had outstanding irrevocable letters of credit totaling approximately \$21.0 million and \$20.6 million, respectively, under the revolving credit facility.

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.

Off Balance Sheet Arrangements

At September 30, 2019 we had no material off balance sheet arrangements, except 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 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

At September 30, 2019, we had \$1,404.9 million of debt outstanding, with a weighted average interest rate of 9.5%. 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 \$14.0 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 as a loss of \$5.0 million and a gain of \$5.5 million for the nine months ended September 30, 2019 and 2018, respectively.

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.

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 material weaknesses in internal control over financial reporting described in our 10-K as of December 31, 2018.

Notwithstanding such material weaknesses in internal control over financial reporting, our management, including our CEO and CFO, has concluded that our consolidated financial statements present fairly, in all material respects, our financial position, results of our operations and our cash flows for the periods presented in this Quarterly Report, in conformity with U.S. generally accepted accounting principles.

Remediation

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, we began implementing a remediation plan to address the material weaknesses mentioned above. The weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

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, 2019, 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 Holdings, Inc. ("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 acquisition of SourceHOV and Novitex Holdings, Inc., by Quinpario in July 2017 ("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 SourceHOV shares at the time of the Novitex Business Combination.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The Court conducted a trial in June 2019, the parties submitted post-trial briefs in August 2019, and final arguments were held in October 2019. The Court's decision remains pending, but is expected by the end of January 2020. The parties and their experts have offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. SourceHOV argues the value was no more than \$1,633.85 per share and the petitioners argue the value was at least \$5,079.28 per share. Interest accrues on the value of the shares from the date of the Business Combination, resulting in a potential range of values based on the respective proposals of approximately \$19.6 million to \$61.0 million as of September 30, 2019. The Company believes the petitioners' claims of value of the SourceHOV shares are without merit and will continue to defend its position vigorously.

The Court may determine a fair value that is above or below the values indicated by the parties and their experts. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate what the Court will determine the fair value of SourceHOV common stock to be as of the date of the Novitex Business Combination. As a result of the Appraisal Action, 4,570,734 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 and pursuant to the terms of the Consent, Waiver and Amendment, dated June 15, 2017) is repaid.

Other

We are, from time to time, involved in other legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although our management cannot predict the outcomes of these matters, our management believes these actions will not have a material, adverse effect on our financial position, results of operations or cash flows.

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, 2018, 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 was authorized to purchase, from time to time, up to 5,000,000 shares of its Common Stock through various means, including, open market transactions and privately negotiated transactions. The decision as to whether to purchase any shares and the timing of purchases were 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 did not obligate the Company to purchase any shares and has expired. We purchased 2,499,885 shares under the Share Buyback Program during 2018 at an average share price of \$4.71. No shares were repurchased during the three months ended September 30, 2019. Share repurchases for the nine months ended September 30, 2019 were 237,962 at an average share price of \$2.74. As of September 30, 2019, a total of 2,787,147 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.

<u>Exhibit No.</u>	<u>Description</u>
2.1	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)
3.1	Restated Certificate of Incorporation, dated July 12, 2017 (4)
3.2	Second Amended and Restated Bylaws, dated November 6, 2019.
4.1	Specimen Common Stock Certificate (1)
4.2	Specimen Warrant Certificate (1)
4.3	Form of Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant (1)
4.4	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)
4.5	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)
10.1	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. (2)
10.2	Exela Technologies Inc. 2018 Stock Incentive Plan. (6)
10.3	Form of Option Grant Notice and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan. (6)
10.4	Form of Restricted Stock Unit Grant and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan. (6)
10.5	Second Amendment to First Lien Credit Agreement, dated as of April, 17, 2019, 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. (5)
10.6	Exela Technologies, Inc. Executive Officer Annual Bonus Plan.
31.1	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
31.2	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
32.1	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
32.2	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
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 Registrants' Current Report on Form 8-K, filed on July 13, 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 April 17, 2019.
- (6) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed on May 10, 2019.

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 12th day of November, 2019.

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)

SECOND AMENDED AND RESTATED

BY-LAWS

OF

Exela Technologies, Inc.

ARTICLE I

OFFICES

1.1 Registered Office. The registered office of Exela Technologies, Inc. (the "Corporation") in the State of Delaware shall be established and maintained at 615 S. DuPont Highway, Kent County, Dover, Delaware and National Corporate Research, Ltd. shall be the registered agent of the corporation in charge thereof.

1.2 Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the board of directors of the Corporation (the "Board of Directors") may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1 Place of Meetings. All meetings of the stockholders shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof; provided that the Board may in its sole discretion determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication pursuant to Section 2.13.

2.2 Annual Meetings. The annual meeting of stockholders shall be held on such date and at such time as may be fixed by the Board of Directors and stated in the notice of the meeting, for the purpose of electing directors and for the transaction of only such other business as is properly brought before the meeting in accordance with these Second Amended and Restated Bylaws (the "Bylaws").

Written notice of an annual meeting stating the place, date and hour of the meeting, shall be given to each stockholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the annual meeting.

To be properly brought before the annual meeting, business must be either (i) specified in the notice of annual meeting (or any supplement or amendment thereto) given by or at the direction of the Board of Directors, (ii) otherwise brought before the annual meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the annual meeting by a stockholder who is a stockholder of record on the date of the giving of the notice and on the record date for the determination of stockholders entitled to vote at such annual meeting and who complies with the notice procedures in this Section 2.2. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the meeting; provided, however, that in the event that less than seventy (70) days notice or prior public disclosure of the date of the annual meeting is given or made to stockholders, notice by a stockholder, to be timely, must be received no later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs. A stockholder's notice to the Secretary shall set forth (a) as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting (including the text of any resolutions proposed for consideration and in the event such business includes a proposal to amend these Bylaws, the language of the proposed amendment) and the reasons for conducting such business at the annual meeting, and (ii) any material interest of the stockholder in such business, and (b) as to the stockholder giving the notice (i) the name and record address of the stockholder and (ii) the class, series and number of shares of capital stock of the Corporation

which are beneficially owned by the stockholder. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Article II, Section 2. The officer of the Corporation presiding at an annual meeting shall, if the facts warrant, determine and declare to the annual meeting that business was not properly brought before the annual meeting in accordance with the provisions of this Article II, Section 2, and if such officer should so determine, such officer shall so declare to the annual meeting and any such business not properly brought before the meeting shall not be transacted.

2.3 Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Second Amended and Restated Certificate of Incorporation of the Corporation (the "Certificate of Incorporation"), may only be called by a majority of the entire Board of Directors, or the President or the Chairman, and shall be called by the Secretary at the request in writing of stockholders owning a majority in amount of the entire capital stock of the corporation issued and outstanding and entitled to vote. Without limiting the foregoing, upon the request of (a) HOVS LLC, HOVS Capital II LLC, Stern Capital LLC, Sunraj LLC, Pidgin Associates LLC, HandsOn Fund 4 I, LLC, Sonino LLC and Ex-Sigma LLC (collectively, the "HGM Group") (or its affiliate or assignee) so long as it (or its affiliate or assignee) has the right to nominate at least one director of the Board in accordance with the nomination agreement between the HGM Group and the Corporation or (b) Apollo Novitex Holdings, L.P. ("Apollo") (or its affiliate or assignee) so long as it (or its affiliate or assignee) has the right to nominate at least one director of the Board in accordance with the nomination agreement between Apollo and the Corporation (collectively with the nomination agreement between the HGM Group and the Corporation, (collectively, the "Nomination Agreements"), the Chairman or the President shall call a special meeting of stockholders. Such request shall state the purpose or purposes of the proposed meeting.

Unless otherwise provided by law, written notice of a special meeting of stockholders, stating the time, place and purpose or purposes thereof, shall be given to each stockholder entitled to vote at such meeting, not less than ten (10) or more than sixty (60) days before the date fixed for the meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

2.4 Quorum. The holders of a majority of the capital stock issued and outstanding and entitled to vote thereat present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the holders of a majority of the votes entitled to be cast by the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

2.5 Organization. The Chairman of the Board of Directors shall act as chairman of meetings of the stockholders. The Board of Directors may designate any other officer or director of the Corporation to act as chairman of any meeting in the absence of the Chairman of the Board of Directors, and the Board of Directors may further provide for determining who shall act as chairman of any stockholders meeting in the absence of the Chairman of the Board of Directors and such designee.

The Secretary of the Corporation shall act as secretary of all meetings of the stockholders, but in the absence of the Secretary the presiding officer may appoint any other person to act as secretary of any meeting.

2.6 Voting. Unless otherwise required by law, the Certificate of Incorporation, the Nomination Agreements or these Bylaws, any question (other than the election of directors) brought before any meeting of stockholders shall be decided by the vote of the holders of a majority of the stock represented and entitled to vote thereat. At all meetings of stockholders for the election of directors, a plurality of the votes cast shall be sufficient to elect. Each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stockholder, unless otherwise provided by the Certificate of Incorporation. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize any person or persons to act for him by proxy. All proxies shall be executed in writing and shall be filed with the Secretary of the Corporation not later than the day on which

exercised. No proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast by written ballot.

2.7 Action of Shareholders Without Meeting. Any action required or permitted to be taken by the stockholders of the Corporation must be effected by a duly called annual or special meeting of such holders and may not be effected by written consent of the stockholders.

2.8 Voting List. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the election, either at a place within the city, town or village where the election is to be held, which place shall be specified in the notice of the meeting, or, if not specified, at the place where said meeting is to be held. The list shall be produced and kept at the time and place of election during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present. In the event that the Corporation determines to make the list available on an electronic network, the Corporation will take reasonable steps to ensure that such information is available only to stockholders of the Corporation.

2.9 Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 8 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

2.10 Adjournment. Any meeting of the stockholders, including one at which directors are to be elected, may be adjourned for such periods as the presiding officer of the meeting or the stockholders present in person or by proxy and entitled to vote shall direct.

2.11 Ratification. Any transaction questioned in any stockholders' derivative suit, or any other suit to enforce alleged rights of the Corporation or any of its stockholders, on the ground of lack of authority, defective or irregular execution, adverse interest of any director, officer or stockholder, nondisclosure, miscomputation or the application of improper principles or practices of accounting may be approved, ratified and confirmed before or after judgment by the Board of Directors or by the holders of Common Stock and, if so approved, ratified or confirmed, shall have the same force and effect as if the questioned transaction had been originally duly authorized, and said approval, ratification or confirmation shall be binding upon the Corporation and all of its stockholders and shall constitute a bar to any claim or execution of any judgment in respect of such questioned transaction.

2.12 Inspectors. The election of directors and any other vote by ballot at any meeting of the stockholders shall be supervised by at least one inspector. Such inspectors shall be appointed by the Board of Directors in advance of the meeting. If the inspector so appointed shall refuse to serve or shall not be present, such appointment shall be made by the officer presiding at the meeting.

2.13 Meetings by Means of Conference Telephone. Stockholders may participate in a meeting of the stockholders by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this subsection shall constitute presence in person at such meeting.

ARTICLE III DIRECTORS

3.1 Powers; Number; Qualifications. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, except as may be otherwise provided by law or in the Certificate of Incorporation. Subject to the terms and conditions in the Nomination Agreements, the number of directors which shall constitute the Board of Directors shall be not less than one (1) nor more than eight (8). Subject to the terms and conditions in the Nomination Agreements, the exact number of directors shall be fixed from time to time, within the limits specified in this Article III Section 1 or in the Certificate of Incorporation, by the Board of Directors. Directors

need not be stockholders of the Corporation. The Board may be divided into Classes as more fully described in the Certificate of Incorporation.

3.2 Election; Term of Office; Resignation; Removal; Vacancies. Subject to the terms and conditions in the Nomination Agreements, each director shall hold office until the next annual meeting of stockholders at which his Class stands for election or until such director's earlier resignation, removal from office, death or incapacity. Unless otherwise provided in the Certificate of Incorporation and the Nomination Agreements, vacancies and newly created directorships resulting from any increase in the authorized number of directors or from any other cause may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director and each director so chosen shall hold office until the next election of the class for which such director shall have been chosen, and until his successor shall be elected and qualified, or until such director's earlier resignation, removal from office, death or incapacity.

3.3 Nominations. Nominations of persons for election to the Board of Directors of the Corporation at a meeting of stockholders of the Corporation may be made at such meeting by or at the direction of the Board of Directors, by any committee or persons appointed by the Board of Directors or by any stockholder of the Corporation entitled to vote for the election of directors at the meeting who is a stockholder of record on the date of the giving of the notice and on the record date for the determination of stockholders entitled to vote at such annual meeting and who complies with the notice procedures set forth in this Article III, Section 3. Such nominations by any stockholder shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the meeting; provided however, that in the event that less than seventy (70) days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder, to be timely, must be received no later than the close of business on the tenth (10th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs. Such stockholder's notice to the Secretary shall set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (a) the name, age, business address and residence address of the person, (b) the principal occupation or employment of the person, (c) the class and number of shares of capital stock of the Corporation which are beneficially owned by the person, and (d) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to the Rules and Regulations of the Securities and Exchange Commission under Section 14 of the Securities Exchange Act of 1934, as amended, and (ii) as to the stockholder giving the notice (a) the name and record address of the stockholder and (b) the class and number of shares of capital stock of the Corporation which are beneficially owned by the stockholder. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a director of the Corporation. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth herein. The officer of the Corporation presiding at an annual meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

3.4 Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. The first meeting of each newly elected Board of Directors shall be held immediately after and at the same place as the meeting of the stockholders at which it is elected and no notice of such meeting shall be necessary to the newly elected directors in order to legally constitute the meeting, provided a quorum shall be present. Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the President (including upon the written request of at least two directors then in office) or a majority of the entire Board of Directors. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than seventy-two (72) hours before the date of the meeting, by telephone, facsimile, telegram or e-mail on forty-eight (48) hours notice,.

3.5 Quorum. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these Bylaws, at all meetings of the Board of Directors or any committee thereof, a majority of the entire Board of Directors or such committee, as the case may be, and at least one director nominated by each of the HGM Group (or its affiliate or assignee) (so long as it has the right to nominate a director in accordance with the applicable Nomination Agreement) and Apollo (so long as it has the right to nominate a director in accordance with the applicable Nomination

Agreement) shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. Notwithstanding the foregoing, if either a director nominated by Apollo (or its affiliate or assignee) or a director nominated by the HGM Group (or its affiliate or assignee) has informed the Corporation in writing that it will not attend a specific meeting and that it consents to a quorum without its presence, the presence of such person shall not be required to constitute a quorum at such meeting; provided, however, if a quorum shall not be present at the adjourned meeting because either no director nominated by Apollo (or its affiliate or assignee) or a member of the HGM Group (or its affiliate or assignee) is present, in person or by proxy and the directors nominated by Apollo (or its affiliate or assignee) and the HGM Group (or its affiliate or assignee) have received written notice of the time and place of the adjourned meeting in accordance with Section 3.4, such person's presence shall not be required at the adjourned meeting to constitute a quorum at such adjourned meeting. If a quorum shall not be present at any meeting of the Board of Directors or of any committee thereof, a majority of the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

3.5A Special Quorum Provisions. Notwithstanding anything to the contrary set forth in Bylaw 3.5: (a) during such time as the HGM Group has the right to nominate one or more directors in accordance with the applicable Nomination Agreement, but has not nominated any directors, the presence of a director nominated by the HGM Group shall not be required for a quorum of the Board of Directors or any committee thereof, and (b) during such time as Apollo has the right to nominate one or more directors in accordance with the applicable Nomination Agreement, but has not nominated any directors, the presence of a director nominated by Apollo shall not be required for a quorum of the Board of Directors or any committee thereof

3.6 Organization of Meetings. The Board of Directors shall elect one of its members to be Chairman of the Board of Directors. The Chairman of the Board of Directors shall lead the Board of Directors in fulfilling its responsibilities as set forth in these By-Laws, including its responsibility to oversee the performance of the Corporation, and shall determine the agenda and perform all other duties and exercise all other powers which are or from time to time may be delegated to him or her by the Board of Directors.

Meetings of the Board of Directors shall be presided over by the Chairman of the Board of Directors, or in his or her absence, by the President, or in the absence of the Chairman of the Board of Directors and the President by such other person as the Board of Directors may designate or the members present may select.

3.7 Actions of Board of Directors Without Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee.

3.8 Removal of Directors by Stockholders. The entire Board of Directors or any individual Director may be removed from office with or without cause by a majority vote of the holders of the outstanding shares then entitled to vote at an election of directors. Notwithstanding the foregoing, if the Corporation's board is classified stockholders may effect such removal only for cause. Subject to the terms and conditions of the Nomination Agreements, in case the Board of Directors or any one or more Directors be so removed, new Directors may be elected at the same time for the unexpired portion of the full term of the Director or Directors so removed.

3.9 Resignations. Any Director may resign at any time by submitting his written resignation to the Board of Directors or Secretary of the Corporation. Such resignation shall take effect at the time of its receipt by the Corporation unless another time be fixed in the resignation, in which case it shall become effective at the time so fixed. The acceptance of a resignation shall not be required to make it effective.

3.10 Committees. Subject to the terms and conditions of the Nomination Agreements, the Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. Subject to the terms and conditions of the Nomination Agreements, in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors

to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided by law and in the resolution of the Board of Directors establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution or amending the Bylaws of the Corporation; and, unless the resolution expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock or to adopt a certificate of ownership and merger. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

3.11 Compensation. The directors may be paid their reasonable, documented out-of-pocket expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed amount (in cash or other form of consideration) for attendance at each meeting of the Board of Directors or a stated salary as director and any other meetings or events attended on behalf of the Corporation at the Corporation's request. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

3.12 Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if (i) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

3.13 Meetings by Means of Conference Telephone. Members of the Board of Directors or any committee designed by the Board of Directors may participate in a meeting of the Board of Directors or of a committee of the Board of Directors by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this subsection shall constitute presence in person at such meeting.

ARTICLE IV OFFICERS

4.1 General. The officers of the Corporation shall be elected by the Board of Directors and may consist of: a Chairman of the Board, Vice Chairman of the Board, Chief Executive Officer, President, Chief Financial Officer, Secretary and Treasurer. The Board of Directors, in its discretion, may also elect one or more Vice Presidents (including Executive Vice Presidents and Senior Vice Presidents), Assistant Secretaries, Assistant Treasurers, a Controller and such other officers as in the judgment of the Board of Directors may be necessary or desirable. Any number of offices may be held by the same person and more than one person may hold the same office, unless otherwise prohibited by law, the Certificate of Incorporation or these Bylaws. The officers of the Corporation need not be stockholders of the Corporation, nor need such officers be directors of the Corporation.

4.2 Election. The Board of Directors at its first meeting held after each annual meeting of stockholders shall elect the officers of the Corporation who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the

Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. Except as otherwise provided in this Article IV, any officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers who are directors of the Corporation shall be fixed by the Board of Directors.

4.3 Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the President or any Vice President, and any such officer may, in the name and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

4.4 Chief Executive Officer. Subject to the provisions of these Bylaws and to the direction of the Board of Directors, the Chief Executive Officer shall have ultimate authority for decisions relating to the general management and control of the affairs and business of the Corporation and shall perform such other duties and exercise such other powers which are or from time to time may be delegated to him or her by the Board of Directors or these Bylaws, all in accordance with basic policies as established by and subject to the oversight of the Board of Directors.

4.5 President. At the request of the Chief Executive Officer, or in the absence of the Chief Executive Officer, or in the event of his or her inability or refusal to act, the President shall perform the duties of the Chief Executive Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon such office. The President shall perform such other duties and have such other powers as the Board of Directors from time to time may prescribe.

4.6 Chief Financial Officer. The Chief Financial Officer shall have general supervision, direction and control of the financial affairs of the Corporation and shall perform such other duties and exercise such other powers which are or from time to time may be delegated to him or her by the Board of Directors or these Bylaws, all in accordance with basic policies as established by and subject to the oversight of the Board of Directors. In the absence of a named Treasurer, the Chief Financial Officer shall also have the powers and duties of the Treasurer as hereinafter set forth and shall be authorized and empowered to sign as Treasurer in any case where such officer's signature is required.

4.7 Vice Presidents. At the request of the President or in the absence of the President, or in the event of his or her inability or refusal to act, the Vice President or the Vice Presidents if there is more than one (in the order designated by the Board of Directors) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon such office. Each Vice President shall perform such other duties and have such other powers as the Board of Directors from time to time may prescribe. If there be no Vice President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the President or in the event of the inability or refusal of such officer to act, shall perform the duties of such office, and when so acting, shall have all the powers of and be subject to all the restrictions upon such office.

4.8 Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the President, under whose supervision the Secretary shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, then any Assistant Secretary shall perform such actions. If there be no Assistant Secretary, then the Board of Directors or the President may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors

may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

4.9 Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

4.10 Assistant Secretaries. Except as may be otherwise provided in these Bylaws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of his disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

4.11 Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of his disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

4.12 Controller. The Controller shall establish and maintain the accounting records of the Corporation in accordance with generally accepted accounting principles applied on a consistent basis, maintain proper internal control of the assets of the Corporation and shall perform such other duties as the Board of Directors, the President or any Vice President of the Corporation may prescribe.

4.13 Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

4.14 Vacancies. The Board of Directors shall have the power to fill any vacancies in any office occurring from whatever reason.

4.15 Resignations. Any officer may resign at any time by submitting his written resignation to the Corporation. Such resignation shall take effect at the time of its receipt by the Corporation, unless another time be fixed in the resignation, in which case it shall become effective at the time so fixed. The acceptance of a resignation shall not be required to make it effective.

4.16 Removal. Subject to the provisions of any employment agreement approved by the Board of Directors, any officer of the Corporation may be removed at any time, with or without cause, by the Board of Directors.

ARTICLE V
CAPITAL STOCK

5.1 Form of Certificates. The shares of stock in the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of the Corporation's stock shall be in uncertificated form. Stock certificates shall be in such forms as the Board of Directors may prescribe and signed by the Chairman of the Board, President or a Vice President and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation.

5.2 Signatures. Any or all of the signatures on a stock certificate may be a facsimile, including, but not limited to, signatures of officers of the Corporation and countersignatures of a transfer agent or registrar. In case an officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

5.3 Lost Certificates. The Board of Directors may direct a new stock certificate or certificates to be issued in place of any stock certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new stock certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

5.4 Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of certificated stock shall be made on the books of the Corporation only by the person named in the certificate or by such person's attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before a new certificate shall be issued. Transfers of uncertificated stock shall be made on the books of the Corporation only by the person then registered on the books of the Corporation as the owner of such shares or by such person's attorney lawfully constituted in writing and written instruction to the Corporation containing such information as the Corporation or its agents may prescribe. No transfer of uncertificated stock shall be valid as against the Corporation for any purpose until it shall have been entered in the stock records of the Corporation by an entry showing from and to whom transferred. The Corporation shall have no duty to inquire into adverse claims with respect to any stock transfer unless (a) the Corporation has received a written notification of an adverse claim at a time and in a manner which affords the Corporation a reasonable opportunity to act on it prior to the issuance of a new, reissued or re-registered share certificate, in the case of certificated stock, or entry in the stock record books of the Corporation, in the case of uncertificated stock, and the notification identifies the claimant, the registered owner and the issue of which the share or shares is a part and provides an address for communications directed to the claimant; or (b) the Corporation has required and obtained, with respect to a fiduciary, a copy of a will, trust, indenture, articles of co-partnership, Bylaws or other controlling instruments, for a purpose other than to obtain appropriate evidence of the appointment or incumbency of the fiduciary, and such documents indicate, upon reasonable inspection, the existence of an adverse claim. The Corporation may discharge any duty of inquiry by any reasonable means, including notifying an adverse claimant by registered or certified mail at the address furnished by him or, if there be no such address, at his residence or regular place of business that the security has been presented for registration of transfer by a named person, and that the transfer will be registered unless within thirty days from the date of mailing the notification, either (a) an appropriate restraining order, injunction or other process issues from a court of competent jurisdiction; or (b) an indemnity bond, sufficient in the Corporation's judgment to protect the Corporation and any transfer agent, registrar or other agent of the Corporation involved from any loss which it or they may suffer by complying with the adverse claim, is filed with the Corporation.

5.5 Fixing Record Date. In order that the Corporation may determine the stockholders entitled to notice or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record is adopted by the Board of Directors, and which record date shall not be

more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than ten (10) days after the date upon which the resolution fixing the record date of action with a meeting is adopted by the Board of Directors, nor more than sixty (60) days prior to any other action. If no record date is fixed:

(a) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(b) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the first date on which a signed written consent is delivered to the Corporation.

(c) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

5.6 Registered Stockholders. Prior to due presentment for transfer of any share or shares, the Corporation shall treat the registered owner thereof as the person exclusively entitled to vote, to receive notifications and to all other benefits of ownership with respect to such share or shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State Delaware.

ARTICLE VI NOTICES

6.1 Form of Notice. Notices to directors and stockholders other than notices to directors of special meetings of the board of Directors which may be given by any means stated in Article III, Section 4, shall be in writing and delivered personally or mailed to the directors or stockholders at their addresses appearing on the books of the corporation. Notice by mail shall be deemed to be given at the time when the same shall be mailed. Subject to the rules of any applicable stock exchange, notice to stockholders and directors may also be given by telegram or email. If delivered by email, such notice shall be deemed to be given when the email is sent by the originator. The time stamp on the sent email shall act as proof of service.

6.2 Waiver of Notice. Whenever any notice is required to be given under the provisions of law or the Certificate of Incorporation or by these Bylaws of the Corporation, a written waiver, signed by the person or persons entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular, or special meeting of the stockholders, Directors, or members of a committee of Directors need be specified in any written waiver of notice unless so required by the Certificate of Incorporation.

ARTICLE VII INDEMNIFICATION OF DIRECTORS AND OFFICERS

7.1 The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, employee or agent of the Corporation or any subsidiary thereof, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding. The termination of any action, suit or

proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

7.2 To the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 of this Article, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

7.3 The Corporation hereby acknowledges that an indemnitee may have certain rights to other indemnification, advancement of expenses and/or insurance (collectively, the "Other Indemnitors"). The Corporation hereby agrees that with respect to any and all losses arising by reason of the fact that such indemnitee is or was a director, officer, employee or agent of the Corporation or any subsidiary thereof, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, (i) that the Corporation is the indemnitor of first resort (i.e., its obligations to an indemnitee are primary and any obligation of the Other Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by such indemnitee are secondary), (ii) that the Corporation shall be required to advance the full amount of expenses incurred by an indemnitee in accordance with this Article VII and shall be liable for the full amount of all losses to the extent legally permitted and as required by the terms of the Certificate of Incorporation and the Bylaws (or any other agreement between the Corporation and an indemnitee), without regard to any rights an indemnitee may have against the Other Indemnitors, and, (iii) that the Corporation irrevocably waives, relinquishes and releases the Other Indemnitors from any and all claims against the Other Indemnitors for contribution, subrogation or any other recovery of any kind in respect thereof. The Corporation further agrees that no advancement or payment by the Other Indemnitors on behalf of an indemnitee with respect to any claim for which such indemnitee has sought indemnification from the Corporation shall affect the foregoing and the Other Indemnitors shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of such indemnitee against the Corporation. The Corporation and each indemnitee agree that the Other Indemnitors are express third party beneficiaries of the terms of this Article VII.

7.4 Expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Section. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

7.5 Any repeal or amendment of this Article VII by the stockholders of the Corporation or by changes in law, or the adoption of any other provision of the Amended and Restated Certificate and the Bylaws inconsistent with this Article VII, shall, unless otherwise required by law, be prospective only (except to the extent such amendment or change in law permits the Corporation to provide broader indemnification rights on a retroactive basis than permitted prior thereto), and shall not in any way diminish or adversely affect any right or protection existing at the time of such repeal or amendment or adoption of such inconsistent provision in respect of any proceeding (regardless of when such proceeding is first threatened, commenced or completed) arising out of or related to any act or omission occurring prior to such repeal or amendment or adoption of such inconsistent provision.

7.6 The indemnification and advancement of expenses provided by, or granted pursuant to the other sections of this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

7.7 The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such,

whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article.

7.8 For purposes of this Article, references to “the Corporation” shall include, in addition to the resulting Corporation, any constituent Corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer employee or agent of such constituent Corporation, or is or was serving at the request of such constituent Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this Article with respect to the resulting or surviving Corporation as he would have with respect to such constituent Corporation of its separate existence had continued.

7.9 For purposes of this Article, references to “other enterprises” shall include employee benefit plans; references to “fines” shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to “serving at the request of the Corporation” shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation” as referred to in this Article.

7.10 The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

7.11 No director or officer of the Corporation shall be personally liable to the Corporation or to any stockholder of the Corporation for monetary damages for breach of fiduciary duty as a director or officer to the fullest extent permitted by law.

ARTICLE VIII GENERAL PROVISIONS

8.1 Reliance on Books and Records. Each Director, each member of any committee designated by the Board of Directors, and each officer of the Corporation, shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or other records of the Corporation, including reports made to the Corporation by any of its officers, by an independent certified public accountant, or by an appraiser selected with reasonable care.

8.2 Maintenance and Inspection of Records. The Corporation shall, either at its principal executive office or at such place or places as designated by the Board of Directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these by-laws, as may be amended to date, minute books, accounting books and other records.

Any such records maintained by the Corporation may be kept on, or by means of, or be in the form of, any information storage device or method, provided that the records so kept can be converted into clearly legible paper form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect such records pursuant to the provisions of the Delaware General Corporation Law. When records are kept in such manner, a clearly legible paper form produced from or by means of the information storage device or method shall be admissible in evidence, and accepted for all other purposes, to the same extent as an original paper form accurately portrays the record.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the Corporation’s stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person’s interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath

shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the Corporation at its registered office in Delaware or at its principal executive office.

8.3 Inspection by Directors. Any director shall have the right to examine the Corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his or her position as a director.

8.4 Dividends. Subject to the provisions of the Certificate of Incorporation, if any, dividends upon the capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Directors shall think conducive to the interest of the Corporation, and the Directors may modify or abolish any such reserve in the manner in which it was created.

8.5 Checks. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other persons as the Board of Directors may from time to time designate.

8.6 Fiscal Year. The fiscal year of the Corporation shall be as determined by the Board of Directors. If the Board of Directors shall fail to do so, the President shall fix the fiscal year.

8.7 Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced.

8.8 Amendments. Subject to the terms and conditions of the Nomination Agreements, the original or other Bylaws may be adopted, amended or repealed by the stockholders entitled to vote thereon at any regular or special meeting or, if the Certificate of Incorporation so provides, by the Board of Directors. The fact that such power has been so conferred upon the Board of Directors shall not divest the stockholders of the power nor limit their power to adopt, amend or repeal Bylaws.

8.9 Interpretation of Bylaws. All words, terms and provisions of these Bylaws shall be interpreted and defined by and in accordance with the General Corporation Law of the State of Delaware, as amended, and as amended from time to time hereafter. In the event that the provisions of these Bylaws and the Nomination Agreements conflict, the provisions of the Nomination Agreements shall take precedence over these Bylaws.

As Adopted November 6, 2019

EXELA TECHNOLOGIES, INC.
EXECUTIVE OFFICER ANNUAL BONUS PLAN

SECTION 1: ESTABLISHMENT AND PURPOSE

1.1 Purpose. Exela Technologies, Inc. (the "Company") hereby establishes the **Exela Technologies, Inc. Executive Officer Annual Bonus Plan** (the "Plan"). The Plan is intended to (i) motivate and reward a greater degree of excellence and teamwork among the senior officers of the Company by providing incentive compensation award opportunities; (ii) provide attractive and competitive total cash compensation opportunities for exceptional corporate, business unit and personal performance; (iii) reinforce the communication and achievement of the mission, objectives and goals of the Company; and (iv) enhance the Company's ability to attract, retain and motivate the highest caliber senior officers.

1.2 Effective Date. This Plan shall become effective November 6, 2019 (the "Effective Date") and shall continue in effect until terminated by the Board in accordance with Section 7.4.

SECTION 2: DEFINITIONS

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

2.1 "Award" means any cash bonus granted under the terms of the Plan. An Award may be expressed as a percentage of an Executive Officer's Base Salary or a specific dollar amount, as determined by the Committee for each Participant for any Plan Year.

2.2 "Base Salary" means as to any Plan Year, 100% of the Participant's annualized salary rate on the last day of the Plan Year. Such Base Salary shall be before both (a) deductions for taxes or benefits, and (b) deferrals of compensation pursuant to Company-sponsored plans.

2.3 "Board" means the Company's Board of Directors.

2.4 "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific Section of the Code shall include such Section, any valid regulation promulgated thereunder, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such Section or regulation.

2.5 "Committee" means the Compensation Committee of the Board, or any successor committee the Board may designate to administer the Plan. Each member of the Committee shall be an "independent" director, as defined under the listing standards of Nasdaq.

2.6 "Company" means **Exela Technologies, Inc.**, a Delaware corporation.

2.7 "Executive Officer" means any individual with the title of Chief Executive Officer, Chief Financial Officer, or President of the Company, and any other individual designated as an Executive Officer of the Company by the Board.

2.8 "Stock Plan" means the Exela Technologies Inc. 2018 Stock Incentive Plan, as amended from time to time.

2.9 "Maximum Award" means the maximum amount which may be paid to a Participant as a single Award for any Plan Year. The size of the Maximum Award is one hundred percent (100%) of a Participant's salary for such Plan Year.

2.10 "Participant" means as to any Plan Year, an Executive Officer who has been selected by the Committee for participation in the Plan for that Plan Year.

2.11 "Payment Date" means, for any Award, the date selected by the Company for payment of the Award which date shall be in the calendar year immediately following the Plan Year to which the Award relates.

2.12 "Performance Goals" means performance goals approved by the Committee with respect to any Potential Award.

2.13 "Plan Year" means the fiscal year of the Company beginning January 1, 2020, and each succeeding fiscal year of the Company.

2.14 "Potential Award" means an Award which is potentially payable to a Participant, the terms of which are approved by the Committee for a Plan Year. The terms of a Potential Award shall relate to that Plan Year and can be exclusively performance-based, with Performance Goals, or can involve a combination of performance-based criteria and individual performance assessments, as the Committee, in its sole discretion, may determine.

SECTION 3: SELECTION OF PARTICIPANTS AND DETERMINATION OF AWARDS

3.1 Selection of Participants. The Committee, in its sole discretion, taking into consideration the recommendation of Company management, shall select the Executive Officers who shall be Participants for the Plan Year. In selecting Participants, the Committee shall choose officers who are likely to have a significant impact on the performance of the Company. Participation in the Plan is in the sole discretion of the Committee, and on a Plan Year by Plan Year basis. Accordingly, an Executive Officer who is a Participant for a given Plan Year in no way is guaranteed or assured of being selected for participation in any subsequent Plan Year or Years.

3.2 Determination of Performance Goals and Potential Awards. Company management shall prepare and recommend to the Committee the terms of the Potential Award and Performance Goals for each Participant for each Plan Year. For the avoidance of doubt, a member of Company management who is also eligible to participate in this Plan shall not make any recommendations regarding a Potential Award to himself or herself. Following submission of the recommendation by Company management, the Committee, in its sole discretion, shall consider and approve the terms of the Potential Award for each Participant for the Plan Year, commencing on the first day of such Plan Year, and the Performance Goals applicable to all, or a portion of, the Potential Award. To the extent that all, or a portion, of the Participant's Potential Award is performance-based, such Potential Award shall be contingent upon the attainment of the Participant's Performance Goals. Each Participant's Performance Goals and Potential Award may be set forth in writing and presented to the Participant. The outcome of any Performance Goal must be substantially uncertain at the time it is established by the Committee.

3.3 Determination of Awards. After the end of each Plan Year, the Committee shall certify the extent to which the Performance Goals applicable to each Participant for that Plan Year were

achieved or exceeded. For this purpose, approved minutes of a meeting of the Committee may be treated as certification. The Committee shall also determine if the criteria for any non-performance-based Potential Awards have been attained. If applicable Performance Goals and other criteria were attained, the Committee shall determine Awards payable to each Participant in accordance with the terms of their Potential Awards, subject to the terms and conditions of the Plan. Notwithstanding any contrary provision of the Plan or the terms of the Potential Award, the Committee, in its sole discretion, may adjust the Award payable to any Participant to an amount other than that which otherwise would be payable under the terms of the Potential Award.

SECTION 4: EARNING AND PAYMENT OF AWARDS

4.1 Right to Award. In order to earn an Award under the Plan, a Participant must remain continuously employed by the Company through the Payment Date for such Award. Except as otherwise provided herein, if a Participant ceases to be employed by the Company for any reason prior to the Payment Date for the Award, then the Participant shall not earn or be paid the Award.

4.2 Death or Disability. Notwithstanding the foregoing, in the event of a Participant's death or termination by the Company due to Disability prior to the Payment Date for an Award, the Participant shall be paid the approximate Award the Participant would have been paid had the Participant remained employed, provided that in no event shall the Award be paid later the March 15th of the calendar year following the calendar year in which the termination occurred. "Disability" for purposes of this Plan means Disability as defined in the Stock Plan.

4.3 Termination without Cause. Notwithstanding the foregoing, in the event of a Participant's termination by the Company without Cause prior to the Payment Date for an Award, subject to the Participant's execution and non-revocation of a general release agreement in the form determined by the Company, the Participant shall be paid the approximate Award the Participant would have been paid had the Participant remained employed, pro-rated based on the number of days the Participant was employed by the Company during the Plan Year to which the Award relates as compared to the full number of days in such Plan Year, provided that in no event shall the Award be paid later the March 15th of the calendar year following the calendar year in which the termination occurred. "Cause" for purposes of this Plan means Cause as defined in the Stock Plan.

4.4 Timing of Payment. Except as otherwise provided in Sections 4.2 and 4.3, payment of an Award, if earned, shall be made on the Payment Date for the Award.

4.4 Form of Payment. Each Award shall be paid in cash (or its equivalent) in a single lump sum or in a series of related payments.

SECTION 5: ADMINISTRATION

5.1 Grant of Awards. The Committee shall determine (i) those Executive Officers eligible to be Participants, and (ii) the amount of each Award, subject to the provisions of the Plan. Awards granted under the Plan shall be evidenced to the extent, and in the manner, if any, prescribed by the Committee from time to time in accordance with the terms of the Plan. In making any determinations under the Plan, including certifications as to attainment of Performance Goals, the Committee shall be entitled to rely on reports, opinions or statements of officers or employees of the Company, as well as those of counsel, public accountants and other professional or expert

persons. All determinations, interpretations and other decisions under or with respect to the Plan or any Award by the Committee shall be final, conclusive and binding upon all parties, including without limitation, the Company, any Executive Officer, and any other person with rights to any Award under the Plan, and no member of the Committee shall be subject to individual liability with respect to the Plan or any Awards thereunder.

5.2 Committee Authority. The Committee shall have sole authority to administer the Plan and, in connection therewith, it shall have full power to (i) construe and interpret the Plan, (ii) establish rules and regulations in connection with the administration of the Plan, and (iii) perform all other acts it believes reasonable and proper, including the power to delegate responsibility to others to assist it in administering the Plan.

SECTION 6: BENEFICIARY DESIGNATION

6.1 Designation of Beneficiary. A Participant may file with the Committee a written designation of a beneficiary or beneficiaries (subject to such limitations as to the classes and number of beneficiaries and contingent beneficiaries as the Committee may from time to time prescribe) to receive, in the event of the death of the Participant, an Award. The Committee reserves the right to review and approve beneficiary designations. A Participant may from time to time revoke or change any such designation or beneficiary and any designation of beneficiary under the Plan shall be controlling over any other disposition, testamentary or otherwise. However, if the Committee shall be in doubt as to the right of any such beneficiary to receive any Award, the Committee may determine to recognize only a right to receipt by the legal representative of the Participant, in which case the Company, the Committee and the members thereof shall not be under any further liability to anyone.

SECTION 7: OTHER GOVERNING PROVISIONS

7.1 Transferability. Except as otherwise provided herein, no Award shall be transferable other than by beneficiary designation, will or the laws of descent and distribution, and any right with respect to an Award may be exercised during the lifetime of the Participant receiving such Award only by such Participant or by his/her guardian or legal representative.

7.2 Reservation of Rights of Company. Neither the establishment of the Plan or any Potential Award, nor the granting of an Award, shall confer upon any Executive Officer any right to continue in the employ of the Company or any affiliate or interfere in any way with the right of the Company or any affiliate to terminate such employment at any time. The Company expressly reserves the right, which may be exercised at any time, to terminate any individual's employment with or without Cause and without regard to the effect such termination might have upon the Participant's receipt of an Award under the Plan.

7.3 Withholding of Taxes. The Company shall deduct from any payment, or otherwise collect from the recipient, any taxes required to be withheld by federal, state or local governments in connection with any Award.

7.4 Amendment and Termination of Plan. The Board may amend or terminate the Plan at any time and for any reason.

7.5 Construction of Plan. The place of administration of the Plan shall be in the State of Delaware and the validity, construction, interpretation, administration and effect of the Plan and of its rules and regulations, and rights relating to the Plan, shall be determined solely in accordance with the laws of the State of Delaware, without giving regard to the conflict of laws provisions thereof.

7.6 Unfunded Nature of Plan. The Plan shall be unfunded, and the Company shall not be required to segregate any assets which may at any time be awarded under the Plan. Each Award that may become payable under the Plan shall be paid solely from the general assets of the Company. Nothing in this Plan shall be construed to create a trust or to establish or evidence any Participant's claim of any right other than as an unsecured general creditor with respect to any payment to which he or she may be entitled.

7.7 Successors. All obligations of the Company under the Plan with respect to any Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

7.8 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality of invalidity will not affect the remaining parts of the Plan and the Plan will be construed and enforced as if the illegal or invalid provision had not been included.

7.9 Expenses of Plan. The expenses of administering the Plan will be borne by the Company.

7.10 Section 409A of the Code. Although the Company does not guarantee the tax treatment of any payments under this Plan, the intent of the Company is that the payments and benefits under this Plan be exempt from Section 409A of the Code and all Treasury Regulations and guidance promulgated thereunder ("Code Section 409A") and to the maximum extent permitted the Plan shall be limited, construed and interpreted in accordance with such intent. References to a Participant's termination of employment will mean the Participant's "separation from service" within the meaning of Section 409A of the Code. If the Company makes a good faith determination that a payment of an award (i) constitutes a deferral of compensation for purposes of Section 409A of the Code, (ii) is made to a Participant by reason of his or her separation from service and (iii) at the time such payment would otherwise be made to Participant is a "specified employee" (within the meaning of Section 409A of the Code, using the identification methodology selected by the Company from time to time), the payment will be delayed until the first day of the seventh month following the date of such separation from service.

7.11 Clawback Provisions. If the Board, or an appropriate committee thereof, has determined that a Participant has engaged in any fraud, gross negligence, or intentional misconduct that has been detrimental to the Company, the Board or committee may take, in its discretion, such action as it deems necessary to remedy the misconduct and prevent its recurrence including, among other rights, and to the extent permitted by applicable law, causing the cancellation of Awards and requiring reimbursement of any bonus or incentive compensation paid to the Participant pursuant to this Plan. In addition, the Board may dismiss the Participant, authorize legal action, or take such other action to enforce the Participant's obligations to the Company as it may deem appropriate in view of all the facts surrounding the particular case. The Company will not seek to recover bonuses or other compensation as detailed above paid more than three years prior to the date the fraud, gross negligence or intentional misconduct is discovered.

7.12 Adjustments. Notwithstanding anything to the contrary set forth in the Plan, the Committee, in its sole discretion, may increase, reduce or eliminate an Award payable to any Participant above or below that which otherwise would be payable under the terms of the Participant's Potential Award. Notwithstanding any provision of this Plan to the contrary, the Committee may make equitable adjustments to the terms of the Plan to prevent any unintended impact from special or unusual events that might result in a windfall or material adverse change in any Potential Award payment under the Plan. Special or unusual events may include, without limitation, change of control, reorganization, combination with other entities, merger, consolidation, or other restructuring of the Company, other financial policy, changes in accounting principles, policies and practices, changes in tax rates or rules, natural disasters and changes in other applicable laws, rules or regulations. Such adjustment(s) may result in an increase or decrease in Potential Award value and will be determined in the sole discretion of the Committee.

As Approved November 6, 2019

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) or RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Ronald Cogburn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Exela Technologies, Inc. for the quarter ended September 30, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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 12, 2019

/s/ Ronald Cogburn

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

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) or RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, James G. Reynolds, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Exela Technologies, Inc. for the quarter ended September 30, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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 12, 2019

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

**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 period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald Cogburn, Chief Executive Officer of the Company, certify, 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.

Date: November 12, 2019

/s/ Ronald Cogburn
Name: Ronald Cogburn
Title: Chief Executive Officer

**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 period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James G. Reynolds, Chief Financial Officer of the Company, certify, 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.

Date: November 12, 2019

/s/ James G. Reynolds
Name: James G. Reynolds
Title: Chief Financial Officer
