

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 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)

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

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

**75061**  
(Zip Code)

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

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

<b>Title of Each Class</b>	<b>Trading Symbol</b>	<b>Name of Each Exchange On Which Registered</b>
Common Stock, Par Value \$0.0001 per share	XELA	The Nasdaq Stock Market LLC

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required 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, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/> Emerging growth company <input type="checkbox"/>
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Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

The aggregate market value of the Registrant's voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which such voting common equity was last sold as of June 30, 2019, was approximately \$92,130,068 (based on a closing price of \$2.18).

As of June 5, 2020, the Registrant had 147,511,430 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Shareholders to be held in 2020, which definitive proxy statement shall be filed with the Securities and Exchange Commission no later than June 12, 2020.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this Annual Report on Form 10-K (“Annual Report”) are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as “may”, “should”, “would”, “plan”, “intend”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “seem”, “seek”, “continue”, “future”, “will”, “expect”, “outlook” or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, the estimated or anticipated future results and benefits of the Novitex Business Combination, future opportunities for the combined company, and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties regarding Exela’s businesses, and actual results may differ materially. The factors that may affect our results include, among others: the impact of political and economic conditions on the demand for our services; the impact of the COVID-19 pandemic; 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 report under the headings “Risk Factors”, “Legal Proceedings”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and otherwise identified or discussed in this Annual 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 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 report. We are not including the information provided on the websites referenced herein as part of, or incorporating such information by reference into, this Annual Report. In addition, forward-looking statements provide Exela’s expectations, plans or forecasts of future events and views as of the date of this report. Exela anticipates that subsequent events and developments will cause Exela’s assessments to change. These forward-looking statements should not be relied upon as representing Exela’s assessments as of any date subsequent to the date of this report.

## DEFINED TERMS

In this Annual Report, we use the terms “Company”, “we”, “us”, or “our” to refer to Exela Technologies, Inc. and its consolidated subsidiaries, and where applicable, our predecessors SourceHOV and Novitex prior to the closing of the Novitex Business Combination. “Following is a glossary of other abbreviations and acronyms that are found in this Annual Report.”

“*Appraisal Action*” means the petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017 0673 JRS.

“*BPA*” means business process automation.

“*BPO*” means business process outsourcing

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Common Stock*” means the common stock of the Company, par value \$0.0001.

“*Consent, Waiver and Amendment*” means the Consent, Waiver and Amendment dated June 15, 2017, by and among the Company, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., SourceHOV, Novitex, Novitex Parent, L.P., Ex Sigma LLC, HOVS LLC and HandsOn Fund 4 I, LLC, amending the Novitex Business Combination Agreement.

“*EIM*” means enterprise information management.

“*ERP*” means enterprise resource planning system.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“Ex-Sigma 2” means Ex-Sigma 2 LLC, our principal stockholder at the Closing of the Novitex Business Combination.

“*Ex-Sigma*” means Ex-Sigma LLC, the sole equity holder of Ex-Sigma 2.

“*GAAP*” means generally accepted accounting principles in the United States.

“*HGM Group*” means, collectively, HOVS LLC and HandsOn Fund 4 I, LLC and certain of their respective affiliates.

“*HITECH Act of 2009*” means the Health Information Technology for Economic and Clinical Health Act, enacted under Title XIII of the American Recovery and Reinvestment Act of 2009.

“*HIPAA*” means the Health Insurance Portability and Accountability Act of 1996.

“*IT*” mean information technology.

“*JOBS Act*” means the Jumpstart our Business Startups Act.

“*Margin Loan*” means the additional PIPE financing in the form of a \$55.8 million loan obtained by Ex-Sigma 2 as borrower (and secured by shares of the Company held by Ex-Sigma 2) that was used by Ex-Sigma 2 to purchase additional common and preferred shares from the Company to help meet the minimum cash requirements needed to close the Novitex Business Combination.

“*MegaCenter*” means the Company’s Tier-III document processing and outsourcing centers in Windsor, Connecticut, and Austin, Texas.

“*Nasdaq*” means The Nasdaq Stock Market.

“*Novitex*” means Novitex Holdings, Inc., a Delaware corporation.

“*Novitex Business Combination*” means the transactions contemplated by the Novitex Business Combination Agreement, which closed on July 12, 2017 and resulted in SourceHOV and Novitex becoming our wholly-owned subsidiaries and the financing transactions entered into in connection therewith.

“*Novitex Business Combination Agreement*” means the Business Combination Agreement, dated February 21, 2017, among the Company, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., SourceHOV, Novitex, HOVS LLC, HandsOn Fund 4 I, LLC and Novitex Parent, L.P., as amended by the Consent, Waiver and Amendment.

“*PCIDSS*” means the Payment Card Industry Data Security Standard.

“*Quinpario*” means Quinpario Acquisition Corp. 2, a Delaware corporation, the former name of Exela Technologies, Inc.

“*SEC*” means the United States Securities and Exchange Commission.

“*Securities Act*” means the Securities Act of 1933, as amended.

“*SourceHOV*” means SourceHOV Holdings, Inc., a Delaware corporation.

“*TCJA*” means the Tax Cut and Jobs Act.

“*TPS*” means transaction processing solutions.

## **EXPLANATORY NOTE**

### **Overview of Restatement**

In this Annual Report on Form 10-K, the Company:

- (a) restates its Consolidated Balance Sheets as of December 31, 2018 and the related Consolidated Statements of Operations, Consolidated Statements of Comprehensive Loss, Consolidated Statements of Stockholders' Deficit, and Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2018 and 2017;
- (b) amends its Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") as it relates to the fiscal years ended December 31, 2018 and 2017;
- (c) restates its "Selected Financial Data" in Item 6 for fiscal years 2018 and 2017; and
- (d) restates its Unaudited Quarterly Financial Data for the first three fiscal quarters in the fiscal year ended December 31, 2019 and each fiscal quarter in the fiscal year ended December 31, 2018.

### **Background on the Restatement**

As previously disclosed in the Company's Current Report on Form 8-K filed with the SEC on March 17, 2020, the board of directors of the Company, based on the recommendation of the audit committee and in consultation with management, concluded that, because of errors identified in the Company's previously issued financial statements for the fiscal years ended December 31, 2018 and 2017 and the first three quarters of fiscal 2019, the Company would restate its previously issued financial statements, including the quarterly data for fiscal years 2019 and 2018 and its selected financial data for the relevant periods.

These errors were discovered during the course of preparing this Annual Report and the audit of the financial results for fiscal 2019. We have determined that these errors were the result of material weaknesses in internal control over financial reporting that are reported in management's report on internal control over financial reporting as of December 31, 2019 in Part II—Item 9A – Controls and Procedures of this Annual Report.

The restated financial statements correct the following errors:

#### *Appraisal Action Liability Adjustments:*

- \$43.1 million, \$40.6 million and \$37.8 million understatement of accrued liabilities and total stockholders' deficit, as at September 30, 2019, December 31, 2018 and 2017, respectively, due to applying an incorrect accounting treatment for the obligation to pay the fair market value of the former stockholders' shares under the Appraisal Action.
- \$2.4 million, \$2.9 million and \$1.2 million understatement of loss for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, due to the unrecorded interest expense accrual associated with the Company's obligation related to the Appraisal Action. Interest should have been accrued in the relevant periods at the rate set by the Delaware Court of Chancery.

#### *Outsourced Contract Cost Adjustments:*

- A \$5.3 million understatement of loss for the nine months ended September 30, 2019 and a \$3.2 million overstatement of loss for the year ended December 31, 2018, due to the incorrect capitalization of employee training related costs during the set-up phase as costs of fulfilling contracts which should have been expensed under ASC 340-40. Additionally, an adjustment of \$15.4 million was recorded to increase accumulated deficit as of January 1, 2018 to correct the previously-recorded transition adjustment for costs of fulfilling contracts upon the adoption of ASC 606 and ASC 340-40. These errors resulted in \$17.3 million and \$12.0 million overstatement of intangible assets, net as of September 30, 2019 and December 31, 2018, respectively.

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### *Expense Reimbursement Adjustments:*

- A \$2.1 million understatement of loss and related party payables for the nine months ended September 30, 2019, due to non-accrual of the obligation to reimburse Ex-Sigma 2 for the discount to the market price on shares sold by Ex-Sigma 2 in a secondary offering in June 2019 and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment.
- A \$2.4 million understatement of loss and related party payables for the year ended December 31, 2018, due to non-accrual of the obligation to reimburse Ex-Sigma 2 for the underwriting discount and commission expenses of \$2.1 million and an advisory fee of \$0.3 million incurred by Ex-Sigma 2 in a secondary offering in April 2018 and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment.
- A \$1.5 million overstatement of loss for the nine months ended September 30, 2019, due to an amount paid to Ex-Sigma 2 in July 2019 for the fees incurred in connection with the secondary offering, out of a total reimbursable amount of \$4.5 million as discussed in the two bullet points above, was erroneously recorded as selling, general and administrative expenses.
- \$1.7 million and \$5.2 million understatement of loss for the nine months ended September 30, 2019 and for the year ended December 31, 2018, respectively, due to the unrecorded related party expense accrual associated with the Company's obligation to reimburse Ex-Sigma 2 in connection with premium payments made by Ex-Sigma 2 under the Margin Loan and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment. This error resulted in \$6.9 million and \$5.2 million understatement of related party payables as of September 30, 2019 and December 31, 2018, respectively.
- \$0.5 million and \$0.4 million overstatement of selling, general and administrative expenses and understatement of related party expense by the same amount for the nine months ended September 30, 2019 and year ended December 31, 2018, respectively, due to incorrect classification of related party expense as selling, general and administrative expenses. This error had no impact on net loss.

### *Revenue Recognition Adjustments:*

- A \$4.8 million understatement of loss, for the year ended December 31, 2017, due to incorrect recognition of revenue of \$6.4 million and related cost of revenue of \$1.6 million in 2017 related to a multiple element arrangement that included a software license where vendor specific objective evidence (VSOE) of fair value was not established for the undelivered elements of the arrangement under the previous revenue recognition guidance in ASC 985-605. This error resulted in a \$6.4 million understatement of deferred revenue and a \$1.6 million understatement of prepaid expenses and other current assets as at December 31, 2017.
- A \$1.9 million understatement of revenues and understatement of cost of revenue by the same amount for the nine months ended September 30, 2019, due to incorrect application of the gross vs. net presentation guidance under ASC 606. The Company incorrectly netted the costs of rendering service from the revenue under a contract with one customer. This error had no impact on net loss.

### *Cash Flows Classification Adjustments:*

- \$0.1 million and \$34.5 million understatement of operating cash flows and overstatement of financing cash flows, for the years ended December 31, 2018 and 2017, respectively, due to the incorrect interpretation of ASU 2016-15 (*Classification of Certain Receipts and Cash Payments*) and application on a retrospective basis upon adoption of ASU 2016-15 in 2018.
- \$14.3 million, \$7.5 million and \$11.0 million overstatement of operating cash flows and understatement of investing cash flows, for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, due to misclassification of cash flows associated with outsourced contract costs.

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*Other Adjustments:*

- In addition to the errors described above, the restated financial statements also include adjustments to correct certain other immaterial errors, including previously unrecorded immaterial adjustments identified in audits of prior years' financial statements.

Cumulatively through September 30, 2019, the restatement had the following effects on net loss (in thousands):

	Year Ended December 31,	Appraisal Action		Expense		Revenue		Tax Effect of Adjustments	Total Increase in Net Loss
		Liability Adjustments	Outsourced Contract Cost Adjustments	Reimbursement Adjustments	Recognition Adjustment	Other Adjustment			
	2017	\$ 1,187	\$ —	\$ —	\$ 4,834	\$ —	\$ (822)	\$ 5,199	
	2018	2,896	(3,196)	7,628	—	15	(54)	7,289	
Nine Months Ended September 30, 2019		2,457	5,330	2,304	(1,910)	(628)	—	7,553	
		<u>\$ 6,540</u>	<u>\$ 2,134</u>	<u>\$ 9,932</u>	<u>\$ 2,924</u>	<u>\$ (613)</u>	<u>\$ (876)</u>	<u>\$ 20,041</u>	

**Effects of Restatement**

The following table sets forth the effects of the restatement on affected items within our previously reported Consolidated Statements of Operations.

(in thousands, except per share data)		Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
		As Originally Reported	\$ 1,166,841	\$ 1,586,222
<b>Revenue</b>	Adjustments	1,910	—	(6,433)
	As Restated	<u>\$ 1,168,751</u>	<u>\$ 1,586,222</u>	<u>\$ 1,145,891</u>
<b>Operating loss</b>	As Originally Reported	\$ (66,615)	\$ (6,249)	\$ (99,532)
	Adjustments	(5,096)	(4,447)	(4,834)
	As Restated	<u>\$ (71,711)</u>	<u>\$ (10,696)</u>	<u>\$ (104,366)</u>
<b>Net loss</b>	As Originally Reported	\$ (197,479)	\$ (162,517)	\$ (204,285)
	Adjustments	(7,553)	(7,289)	(5,199)
	As Restated	<u>\$ (205,032)</u>	<u>\$ (169,806)</u>	<u>\$ (209,484)</u>
<b>Basic and diluted loss per share</b>	As Originally Reported	\$ (1.33)	\$ (1.09)	\$ (2.08)
	Adjustments	(0.10)	(0.08)	(0.10)
	As Restated	<u>\$ (1.43)</u>	<u>\$ (1.17)</u>	<u>\$ (2.18)</u>

The following table sets forth the effects of the restatement on affected items within our previously reported Consolidated Statements of Cash Flows.

(in thousands)		Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
		As Originally Reported	\$ (33,639)	\$ 30,457
<b>Net cash provided by (used in) operating activities</b>	Adjustments	(13,718)	(6,857)	28,322
	As Restated	<u>\$ (47,357)</u>	<u>\$ 23,600</u>	<u>\$ 51,777</u>
<b>Net cash provided by (used in) investing activities</b>	As Originally Reported	\$ (34,815)	\$ (66,304)	\$ (452,374)
	Adjustments	14,304	7,552	10,992
	As Restated	<u>\$ (20,511)</u>	<u>\$ (58,752)</u>	<u>\$ (441,382)</u>
<b>Net cash provided by (used in) financing activities</b>	As Originally Reported	\$ 39,854	\$ (1,910)	475,727
	Adjustments	(586)	(695)	(39,314)
	As Restated	<u>\$ 39,268</u>	<u>\$ (2,605)</u>	<u>\$ 436,413</u>

The adjustments made as a result of the restatement are more fully discussed in Note 3, *Restatement of Previously Issued Financial Statements*, of the Notes to Consolidated Financial Statements included in this Annual Report. To further review the effects of the accounting errors identified and the restatement adjustments, see Part II—Item 6—Selected

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Financial Data and Part II—Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report. For a description of the control deficiencies identified by management as a result of the investigation and our internal reviews, and management’s plan to remediate those deficiencies, see Part II—Item 9A—Controls and Procedures.

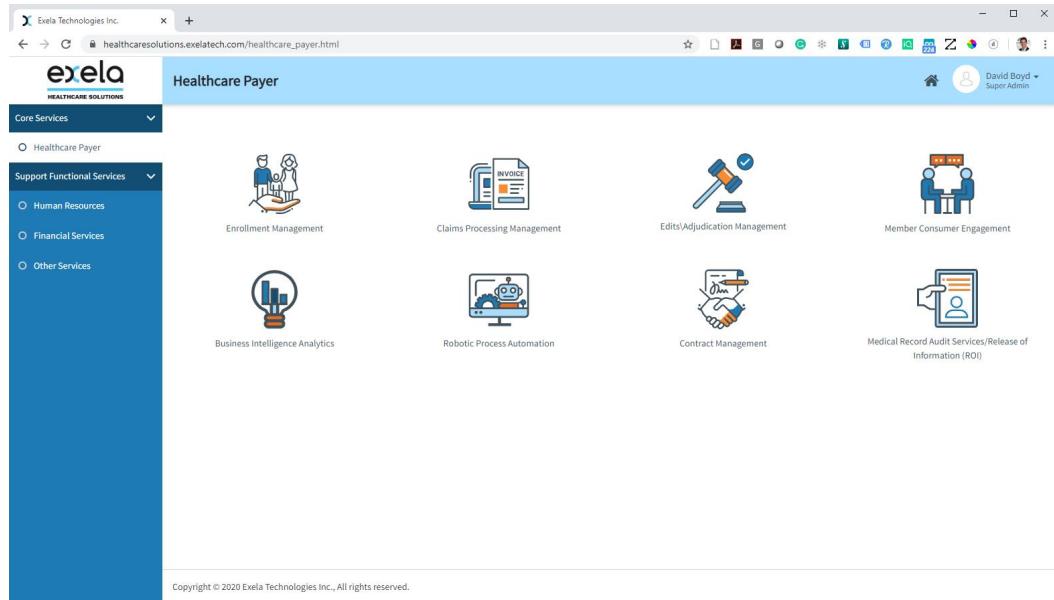
Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company’s previously released financial statements for these periods and any earnings releases or other communications relating to these periods, and, for these periods, investors should rely solely on the financial statements and other financial data for the relevant periods included in this Annual Report. See Note 20, Unaudited Quarterly Financial Data, of the Notes to the Consolidated Financial Statements in this Annual Report for the impact of these adjustments on each of the quarterly periods in fiscal 2018 and for the first three quarters of fiscal 2019. Quarterly reports for fiscal 2020 will include restated results for the corresponding interim periods of fiscal 2019. All amounts in this Annual Report on Form 10-K affected by the restatement adjustments reflect such amounts as restated.

## PART I

### ITEM 1. BUSINESS

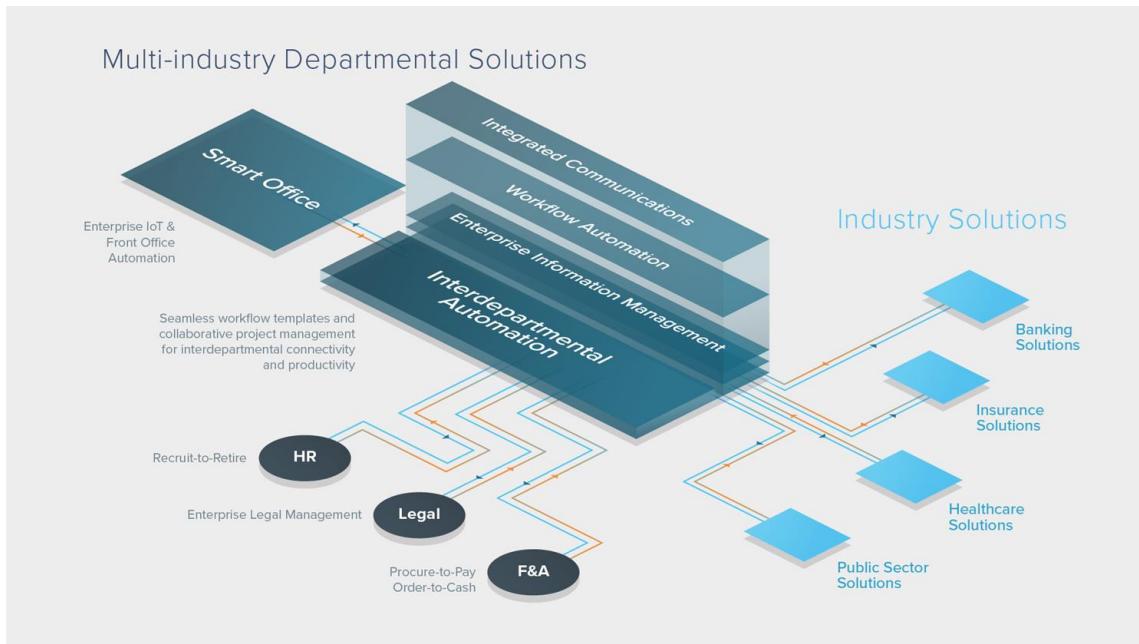
Exela is a business process automation leader leveraging a global footprint and proprietary technology to help turn the complex into the simple through user friendly software platforms and solutions that enable our customers' digital transformation. We have decades of expertise earned from serving many of the world's largest enterprises, including over 60% of the Fortune® 100 and in many mission critical environments across multiple industries, including banking, healthcare, insurance and manufacturing. For the fiscal year ended December 31, 2019, we generated \$1.56 billion of revenue from over 4,000 customers throughout the world.

Our solutions and services touch multiple elements within a customer's organization. We use a global delivery model and primarily host solutions in our data centers, on the cloud or directly from our customers' premises. Our approximately 22,700 employees as of December 31, 2019 operate from business facilities in 23 countries, with some of our employees co-located at our customers' facilities. Our solutions are location agnostic, and we believe the combination of our hybrid hosted solutions and global work force in the Americas, EMEA and Asia offers a meaningful differentiation in the industries we serve and services we provide.



*Exela's portals provide on-demand multi industry and departmental solutions and services alongside industry specific solutions.*

We will continue to further expand our solutions and services for the industries we serve, with a focus on connecting the front, middle and the back office. We believe this positions us as one of the few companies that can offer solutions and services that span from multi-industry departmental solutions to industry specific solutions.



## Our Solutions and Services

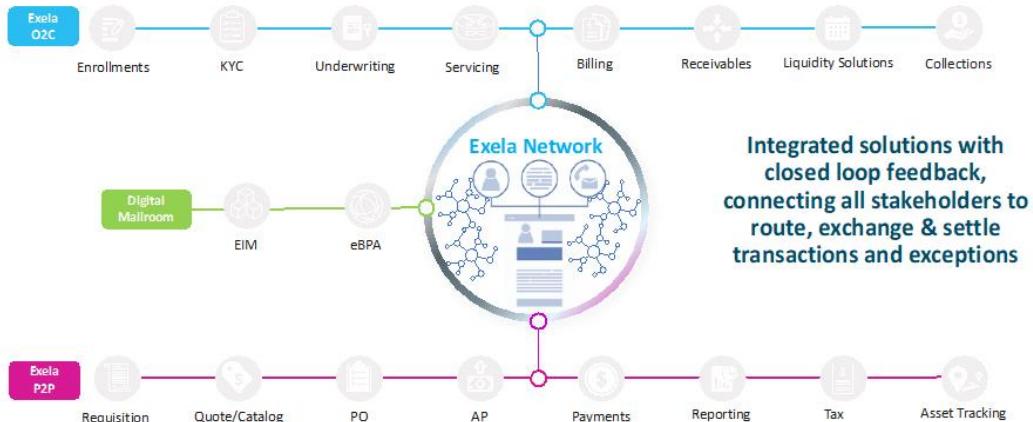
Our suite of offerings combines platform modules for finance and accounting services, enterprise information management, robotic process automation, digital mailroom, business process management and workflow automation, visualization and analytics, contract management and legal management solutions, and integrated communication services which contribute to revenues across our organization and accounting segments and also complement our core industry solutions for banking, insurance, healthcare and the public sector.

### ***Finance and Accounting Solutions (F&A)***

Exela offers a suite of finance and accounting (“F&A”) solutions addressing the payments lifecycle from procure to pay (“P2P”) to order to cash (“O2C”). We use our own technology and our global operations to deliver these solutions.

Our P2P services can be integrated with our digital mail room technology, which expands our ability to support existing data types and formats. In effect, both digital and analog items can enter this information stream. The process kicks off by opening a requisition, once approved it moves to procurement to solicit bids from an approved supplier network. We believe that supporting our customers by making available our supplier network can be a key differentiator in enabling a complete P2P solution. Our P2P platform also records receipt of goods and invoices and performs three way matching digitally. Exceptions are processed by our employees, and once approved, we record the purchase in a customer’s ERP system, so it can be paid. We then use our system to generate and deliver a payment file in the format the bank needs so that a payment can be processed. Some of our customers also authorize us to process the payment on their behalf.

*Plug and play solutions across the Procure-to-Pay (P2P) and Order-to-Cash (O2C) cycle to simplify and personalize user experience, optimize treasury management, and facilitate compliance while reducing administrative cost*



Our O2C solutions enable consolidation of inbound payment channels and data continuity to drive digital adoption and enhance treasury management, including integrated receivables dashboards, multi-channel bill presentment and payment, reconciliation, exception and dispute management, aging analytics, collections management and targeted engagements. The full process includes fulfillment of a customer order, raising an invoice in accordance with customer contracts, accounts receivable management and collections.

Our F&A services include spend analytics and data mining tools for financial planning and analysis to support reporting and audit functions, interchanges and robotics providing automation of ERP entries and regulatory reporting and fixed asset management.

#### ***Enterprise Information Management (EIM)***

Exela's enterprise information management solutions ingest and organize large amounts of data across many data types and formats and store the information in cloud enabled proprietary platforms. We also gather transactional data from enterprise systems for similar hosting. The collected, extracted data is used to complete a process, and is then made available to our customers and their end-consumers for an agreed upon period. We derive revenue for such services, hosting and access.

Our EIM systems host billions of often mission critical records for our customers and the total number continues to rise. As an example of a large deployment of our EIM platform, we helped enable online records access to over 48 million end-customers of a group of European savings banks for deposits, statements, and car and personal loans and mortgages. Another example of EIM deployment is in the hosting of images of healthcare records, checks and payroll taxes for many years for retrieval, compliance and internal information purposes.

We often store both digital and paper records for our customers and offer release of information services according to guidelines set by our customers. For example, we will release documents in litigation upon receipt of a valid subpoena served on our customer or in the healthcare context when a patient switches hospitals and requests access to healthcare records from their previous hospital. We provide these records in the form requested, including chain of custody information. Increasingly, these records are accessed electronically or are delivered in line with green initiatives.

Our platforms can be integrated with customers' existing EIM systems, and our customers can benefit from being able to conduct federated searches across connected datasets, manage records in accordance with their needs and regulatory requirements, build live customer and employee profiles, and facilitate release of information and routing with control over security and permissions. We also provide business intelligence add-ons, offering summarization of data sets, dashboards and trend monitoring, relationship visualization, macro and micro drill-downs, escalation triggers and notifications.

### **Exela Robotic Process Automation**

Exela has been at the forefront of using robotic process automation since 2009. Our deployment model is to use desktop automation first, and if the usage is very high, we usually migrate to server level automation. We have built up a large library of rules by industry and by customer. While we have been using robotic solutions as part of our internal processes for years, only recently have we made them available to our customers. Our domain experts and analysts can either use an existing bot, modify one or create new ones using our design studio. Our robotic solutions are available as programmable robots with a rules library for a specific industry or feature, or as an enterprise license or on a per user per month basis.

### **Digital Mailroom Solutions**

Exela is one of the leading global providers of digital mailroom solutions. Our digital mailroom solutions rely on proprietary technology, use our own or a client's facilities and process a significant number of transactions daily. We use proprietary high-speed scanners as well as support most major scanners. Our end-to-end digital mail room features ingestion from many sources – paper, fax, electronic, emails and other digital data. We recently added recorded voice, image and video ingestion channels. This solution additionally offers shipping and receiving packages with digital receipt, delivery and routing to our intelligent lockers.

We own several classification engines that we deploy for information processing, including unattended digital repositories, for example unattended email boxes to identify content and route it to the appropriate member of an organization. Exela offers its digital mail room for enterprise wide deployment to captive mailrooms of our customers, mail rooms outsourced to both Exela and others, and for business locations where there is no dedicated mail room, such as a front desk. Our customers can see their information across the enterprise from a single platform. Our digital mail solutions are available as SaaS, BaaS or enterprise licenses and we often handle the entire mail operation for a client.

### **Business process management and workflow automation**

Exela has built extensive proprietary workflow automation platforms for business process management across several industries and regions. Our platforms are designed to have intuitive user interfaces with drag & drop configuration enabling analysts a certain amount of customization. Our platforms use our EIM engines by default, are designed to integrate with popular database and enterprise systems and are offered across three user categories:

- **Enterprise class**, hosted on premises. Suitable for 10,000 or more users and 10,000 or more tasks or process automations. Over 10,000 of our employees use this every day to perform mission critical work for our customers in the Americas, EMEA and Asia.
- **Interdepartmental class** workflow automation is ideal to bring structure and collaboration across departments. Over 2,500 of our employees globally use this platform to collaborate with each other and their individual work management. The platform is designed to integrate with other industry leading platforms to create a comprehensive collaborative experience. We intend to offer this to our customers in the future.
- **Case-management** workflow automation platform available as a shrink wrap version for building custom workflows. One can use our library of workflows, customize them or build one from scratch for purposes of case management only. Customers can buy enterprise licenses of this platform, or on a SaaS basis and build their own workflows.

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Exela provides visualization and analytics capabilities within its platforms to provide actionable intelligence tied to collaboration and task management. Configurable dashboards enable users to quickly consolidate and organize disparate data sources through intuitive interfaces. Users can also build their own dashboards with dynamic drilldown options and alerts, link data to managers, and launch action items in pursuit of optimization and issue resolution. By providing analytics tied to actionable tasks, we can help drive optimization to enhance profitability and connectivity. For example, users can create visualization of volume trends and set triggers upon statistical thresholds, sending SMS alerts to managers to adjust their downstream capacity planning, if trends are not in line with set thresholds.

While we offer reporting and analytics on the scope of work processed through operations, we also provide our customers the capability to consolidate various data streams into comprehensive dashboards to enhance the business intelligence functions of an organization, including providing real-time visibility to revenue, cost, profitability and cash flow as well as process monitoring, KPI tracking, and actionable alerts.

We believe providing analytics modules complement our services and solutions, creating a superior user experience, and reducing the need for other third-party tools by centralizing business management within Exela's platforms. By enabling users to share dashboards across their organization, we believe additional users will adopt Exela platforms and increase our penetration into the front-end applications across an enterprise.

### ***Enterprise Legal Management***

Exela provides a contract management system to streamline execution, organization, and data management of large volumes of contracts. We utilize natural language processing and machine learning to extract key terms within unstructured formats and complex content, providing variance analysis, summary tables, and automated organization. Users can easily find important data points in contracts, and quickly analyze large volumes of language variations across format types. The extracted data can then be used to connect to existing systems and ERPs and serve as inputs to business operations, such as accounting and billing processes, financial planning and analysis, and regulatory reporting, enabling real-time audit and automated alerts for deviations from contract parameters. By automating key term extraction, our contract management system enables large volumes of contracts to be analyzed quickly and enables processes such as billing or automatic reminders for significant dates. We believe that Exela's ability to cost effectively provide high accuracy transactional operations with automated validations creates a competitive advantage against those relying on manual processes and discrete sampling.

Exela can also provide a digital signature system to streamline collaboration, approvals and execution of contracts. We deploy a secure, hosted environment to request and execute signatures and exchange contracts and documents across individuals or groups. Our platforms enable multiple signature execution with routing through approval hierarchies, while providing transparency to the status and tracking of comments and edits. Upon execution, documents are stored electronically for secure archiving and retrieval.

Furthermore, Exela offers a suite of enterprise legal management solutions and services that streamline and automate legal department processes to rationalize costs and drive productivity. Solutions and services range from preventative remediation, identifying risks such as overcharges, discrimination, and data breaches and proactively providing restitution, eDiscovery, word processing and contract management using automated summarization and metadata extraction along with cognitive search enabled by natural language processing; and records management.

### ***Integrated Communications***

Exela's comprehensive multi-channel integrated communications solutions help customers communicate with other businesses or customers. This suite of solutions links through many channels, for example, email, print and mail, SMS, web, voice, and chat. Exela solutions and services can also include design and marketing and selection of optimal engagement and least cost routing for mission critical communications for example, bills, statements, enrollments, customer support, targeted marketing, mass notifications, regraphics, and regulatory notices.

We also work with our customers as a digital migration partner to improve user experience while helping to reduce and even eliminate inefficient, wasteful communications. We use proprietary discovery techniques and analytics

in addition to service specific technology to propose optimal channel and content. Our employees can also generate personalized messages, customized promotions, incentives, escalations, and resolutions.

### **Exela Smart Office**

In the second half of 2019, we launched a group of solutions that complement our existing offerings, labeled Exela Smart Office<sup>SM</sup> ("Smart Office"). Smart Office seeks to improve employee and visitor experiences while optimizing facility management efficiency thereby contributing towards corporate sustainability standards. Smart Office is our enterprise IoT, which helps transform the front-office, energy and facilities management, logistics and fulfillment for our customers, and provides on-demand services with connected devices to facilitate green initiatives, reduce waste, and ultimately enhance the employee and visitor experience. For example, our space management software uses sensors to detect facility utilization, which enables optimized space and energy usage and provides mobile workers directions to available work spaces, while our Visitor Management System and lobby kiosk can be deployed to regulate facility access. Our Intelligent Lockers are available for visitor day storage of luggage and to provide a secure chain of custody for parcels and mail for employees using our hosted shipping and receiving tools. There is also a Digital Mailroom offering part of Smart Office, which segregates white mail and aggregates, classifies and routes searchable multi-media mail to the appropriate recipient.

### **Recruit-to-Retire (HR)**

During 2019, we moved the majority of our employees to our proprietary human capital management platform. This platform integrates with our existing offerings and is designed to help an enterprise and its employees manage the data and processes relevant to the entire employment lifecycle from recruitment to retirement. By providing digital management and data tracking for human capital, we enable reduction in administrative overhead and enhanced management of human capital productivity while improving the overall experience. Our human capital management platform is now available for sale.

### **Industry Specific Services and Solutions**

While the above described solutions and services can be leveraged across industries, over the years we have also developed services and solutions for specific industries which help our customers around the world better manage their liquidity. The most significant are summarized below.

#### **Banking and Financial Industry Solutions and Services**

Our banking and financial solutions consist of payment, mortgage, enrollment, lending and loan management, governance and information management solutions and accounted for approximately 25% of 2019 revenue. Exela's payment operations and treasury management solutions are designed to improve digital engagement and transaction speed and compliance. We also provide mobile and remote deposit technologies to our banking and financial services customers.

We are one of the largest processors of payments. We handle many payment channels in addition to checks and credit cards including, automated clearing house (ACH), Faster Payments in UK and Ireland, Single European Payment Area (SEPA), Bank Giro in the Nordics and other payment networks. We perform these services on behalf of banks or their customers. We believe the regulatory environment in many geographies is beginning to allow non-bank payment processors to connect to the payment networks directly such that one can verify funds, confirm payee and settlement of payments and are actively pursuing a PSP license in the European Union to further expand our payment offerings.

We have extensive experience and technology that we have built over decades and that are in use to serve many banks and companies to process the payments related to both business to business ("B2B") and business to consumer ("B2C") transactions. We develop, use, and sell proprietary integrated receivables processing technology, providing our customers with a solution that consolidates B2B and B2C transactions across many payment channels into a single platform. We plan to offer this as a branded or as a private label solution to our banking customers giving them the

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ability to offer advanced treasury solutions with insights from accounts receivable, customer credit worthiness, payment habits, soft collections and delinquent collections.

We add value by automating manual, repetitive processes to improve speed and provide cost efficiencies within a compliant mortgage and lending completion process. Our proprietary mortgage and loan management solutions enable lenders to originate loans and service them with greater efficiency. Our platforms also enable invoice discounting, factoring, payables financing and leverage automation and integration such that traditional lenders and alternate lenders, including peer to peer lenders can provide liquidity to underserved borrowers.

Our key focus is user experience, enabling faster decisions, and facilitating optimal allocation of capital and risk management for our customers. By using our solutions and services, we believe our banking and financial services customers can better manage their lending book and at a lower cost of ownership.

Our banking solutions help organizations transform compliance, know your customer, anti-money laundering and confirmation of payee checks into a competitive advantage, including accelerated digital on-boarding, complex process automation, screening and monitoring and predictive analytics. Exela can provide these services as an end-to-end solution or as an augmentation of existing banking processes, as a technology license or through our employees to manage a component or an entire process.

### ***Healthcare Industry Solutions and Services for Insurance Companies and Healthcare Providers***

Exela's healthcare industry customers include commercial and government sponsored healthcare plans, hospital networks and university hospital systems and large medical distribution systems and pharmacy networks, and accounted for approximately 23% of total revenues in 2019. We serve our customers using our proprietary technology and for some customers combined with their systems.

We bundle our core solutions and services with a suite of healthcare payer specific services such as end-to-end processing of complex transactions, enrollments and credentialing, claims processing, adjudication and payment operations. We specialize in transactions that require multiple layers of validation, supporting documentation processing, reconciliation, and management of exceptions.

We host a proprietary platform that connects providers and payers for claims submissions, acknowledgements or denials of payments and many other interactions covering the complete lifecycle of a claim, which enables a more satisfactory engagement between payers and providers and contributes to improved access to health care and lower administrative costs. Our payer customers often encourage their contracted providers to adopt our digital platforms for overall reduction of claim processing time and cost. We also provide our healthcare provider customers with many services including computer assisted coding, audit and recovery of underpayments, denial and grievances, release of information, and electronic health records. We plan to offer our mobile and web enrollment solutions, appointment scheduling and locating providers with ratings, also include insurance verification, cost of visit estimates and visit pre-approval. We provide some of these services and features on a stand-alone basis and in the future, we plan to offer a more integrated solution.

### ***Insurance Industry Solutions and Services***

Exela offers a suite of insurance industry solutions aimed at providing digital engagements and rapid integration of disparate systems and silos. Our insurance industry solutions accounted for approximately 11% of total revenues in 2019. We provide applications and services to facilitate automation and digital transformation for underwriting and enrollments, premium payments, claims submission, first notification of loss, fraud, waste & abuse monitoring and integrated communications. Our solutions are aimed at improving the customer experience by providing digital pathways and transparency with web portals and integrated communications, while helping to improve quality and risk management.

## **Public Sector**

We provide technology and solutions to public sector customers. Our public sector solutions accounted for approximately 8% of total revenues in 2019. Our mission is to help our public sector customers with their digital journey and meet their objectives of better serving the public. Exela solutions are primarily deployed across pension benefits and administration, tax return processing, payment operations, inter-agency information management and communications with citizens and employees of government institutions.

Our solutions have evolved over time to include digital capabilities and are designed to reduce taxpayer refund waiting time, decrease the potential for tax fraud, and provide reports and data to the relevant stakeholders. Exela also has the infrastructure in place to process payments, perform collection services, handle overflow taxpayer calls, provide e-filing for individual income tax, generate outbound taxpayer notification (traditional and/or electronic notifications), and host other developed solutions.

## **Commercial, Tech, Manufacturing, and Legal Industries Solutions and Services**

For the commercial, technology, manufacturing and legal industries, we primarily provide multi-industry solutions described earlier. For 2019, our commercial industry revenue accounted for approximately 21% of total revenues, our revenues from the technology and manufacturing industry accounted for approximately 7%, while our revenue from the legal industry accounted for approximately 5%.

Historically, the majority of revenue for the above-mentioned industries was generated in the Americas, though we believe there is significant expansion opportunity throughout EMEA and the Asian markets. As we have made investments in our global scale, technology platforms, and business strategy, some of our multi-national customers have expanded our services to other geographies to leverage our international footprint. We believe our value proposition as a single source provider with global platforms and location agnostic operations, positions us as a differentiated partner to our multi-national customers.

With the launch of Smart Office, we have been targeting technology companies in our initial go-to-market approach. We believe technology companies have a heavy focus on employee experience to attract top tier talent, and they often serve as early adopters for new offerings setting trends across other industries, and we believe they will serve as strong references as we expand our Smart Office growth strategy.

## **Overview of Revenues**

Our business consists of three reportable segments:

- **Information and Transaction Processing Solutions ("ITPS").** The ITPS segment is our largest segment, with \$1,230.7 million of revenues for the fiscal year ended December 31, 2019, representing 79.0% of our revenues. We generate ITPS revenues primarily 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.
- **Healthcare Solutions ("HS").** The HS segment generated \$256.8 million of revenues for the fiscal year ended December 31, 2019, representing 16.5% of our revenues. We generate HS revenues primarily from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers.
- **Legal & Loss Prevention Services ("LLPS").** The LLPS segment generated \$71.3 million of revenues for the fiscal year ended December 31, 2019, representing 4.5% of our revenues. We generate LLPS revenues primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

Additional financial information for our three business segments is included in Note 19 within our consolidated financial statements.

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We provide services to our customers on a global basis. In 2019, our revenues by geography were as follows: \$1,285.6 million in the United States (82.3% of total revenues), \$248.5 million in EMEA (16.0% of total revenues), and \$27.2 million from the rest of the world (1.7% of total revenues). We present additional geographical financial information in Note 19 within our consolidated financial statements.

Our revenues can be affected by various factors such as our customers' demand pattern for our services. These factors have historically resulted in lower revenues in the third quarter and higher revenues in the fourth quarter. Backlog is not a metric that we use to measure our business.

### **History and Development of Our Company**

Exela is a Delaware corporation that was formed through the strategic combination of SourceHOV Holdings, Inc. ("SourceHOV") a leading global transaction processing company, and Novitex Holding, Inc. ("Novitex"), a cloud-based document outsourcing company, pursuant to a business combination agreement dated February 21, 2017. Formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), Exela was originally formed as a blank check company on July 15, 2014 and completed its initial public offering on January 22, 2015. In conjunction with the completion of the Novitex Business Combination in July 2017, Quinpario was renamed "Exela Technologies, Inc." Exela began trading under the ticker "XELA" on the Nasdaq Stock Market on July 13, 2017.

The Novitex Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. The acquisition of Novitex was accounted for using the acquisition method. As a result, the financial information for 2017 presented in this Annual Report is not pro forma (unless labeled as such); it includes the financial information and activities for SourceHOV for the entire year ending December 31, 2017, but only reflects the financial information and activities of Novitex for the period following the Novitex Business Combination from July 13, 2017 to December 31, 2017.

On April 10, 2018, Exela completed the acquisition of Asterion International Group, a well-established provider of technology driven business process outsourcing, document management and business process automation across Europe. The acquisition was strategic to expanding Exela's European business.

On November 12, 2019 we announced that our Board of Directors had adopted a debt reduction and liquidity improvement initiative ("Initiative"). This new Initiative is part of the Company's strategic priority to position the Company for long-term success and increased stockholder value. As part of the Initiative, on January 10, 2020, certain subsidiaries of the Company entered into a \$160.0 million accounts receivable securitization facility with a five year term and consummated the sale of its tax benefits consulting group on March 16, 2020. To fund the debt reduction, the Company is also pursuing the sale of certain non-core assets that are not central to the Company's long-term strategic vision, and any potential action with respect to these operations would be intended to allow the Company to better focus on its core businesses. The Company has retained financial advisors to assist with the sale of select assets. 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. Exela 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.

### **Key Business Strategies**

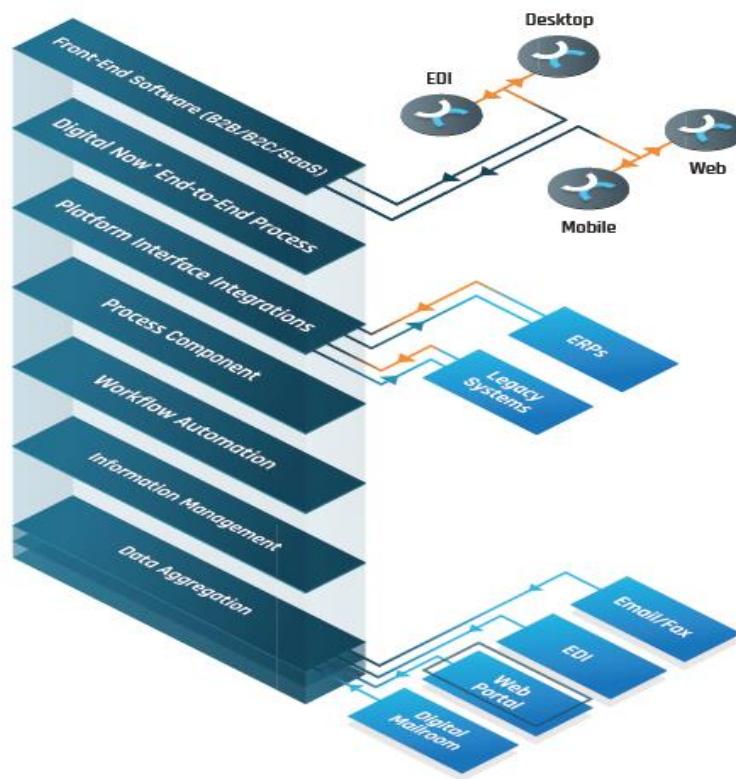
Exela business strategy is to use its Digital Now<sup>SM</sup> model, which aims to accelerate our customers' digital transformation through deployment of our software automation techniques, hosted within a single, cloud hosted platform. Our overarching goal is to provide highest value and lowest cost of ownership. We accomplish this by building scalable systems that are used by our employees to deliver business process automation services globally. The key elements of our growth strategy are described below:

- **Expand Penetration of Solution Stack Across Customer Base.** We seek to move up what we call "the seven layers of technology enabled solutions and services stack," climbing the value chain from discrete services to end-to-end processes through use of front-end enterprise software. We believe continued deployment of our

single sign on portals with on-demand applications will drive expansion of our front-end software (B2B/B2C/SaaS) and integrated offerings.

- o **Layer 1 - Data Aggregation** - Host, gather, extract all types of structured and unstructured data, digital and analog
- o **Layer 2 - Information Management** - Digital classifications, data enhancement and normalization driving downstream processes improvement
- o **Layer 3 - Workflow Automation** - Digital connectivity and automated decisioning driving productivity and quality
- o **Layer 4 - Process Component** - Operations partner for component(s) of larger process, handing off output file for downstream execution
- o **Layer 5 - Platform Interface Integrations** - Exela platforms directly connected to customers' core systems, accessed through SSO and common interfaces
- o **Layer 6 - Digital Now End-to-End Process** - Full cycle operations and technology for multi-channel process through execution of business outcomes
- o **Layer 7 - Front-End Software (B2B/B2C/SaaS)** - Exela front end applications (branded or private label) directly interfacing with end user experience

See diagram of 7 layers of solutions below:



- **Expand relationships with existing customers.** We intend to continue aggressively pursuing cross-selling and up-selling opportunities within our existing customer base. With an existing base of over 4,000 customers, we believe we have meaningful opportunities to offer a bundled suite of services and be a "one-stop-shop" for our customers' information and transaction processing needs. Our sales force is organized on an industry basis and utilizes solutions and relationships to better serve our customers across all levels of their organizations. As an example, we now offer a full suite of healthcare-focused solutions by bundling enrollments, policy and plan management, claims processing, audit and recovery services, payment solutions, integrated accounts payable and receivable, medical records management, and unified communication services for payers and providers.
- **Leverage BPA suite across on-site services.** Approximately 5,000 of our employees currently work at customers in an on-site capacity. We believe this on-site presence is a competitive differentiator and a valuable asset as we pursue future growth opportunities. We have been deploying our BPA software across these customer locations, and we believe that by offering our customers enhanced productivity and quality through our onsite employees, we will continue to create additional opportunities to expand our footprint and wallet share across their organization. For example, in customers where we provide underwriting support and claims processing, we can enable our onsite employees to accelerate the aggregation and analysis of datasets while also increasing accuracy and automatically flagging deficiencies using our software. By enhancing the productivity and quality of our onsite employees, we believe we will increase the demand from our customers to replicate our processes across their organization, bolstering our cross-sell/up-sell initiatives. By having our BPA suite already approved and deployed within existing onsite engagements, we believe our ability to expand into new lines of business will be streamlined and accelerated.
- **Pursue new customer opportunities.** We plan to continue to develop new long-term, strategic customer relationships, especially where we have an opportunity to deliver a wide range of our capabilities and can have a meaningful impact on our customers' business outcomes. For example, we plan to dedicate resources within the legal industry in order to pursue opportunities in e-discovery and contract management services.
- **Develop additional process capabilities and industry expertise.** We will focus on developing additional process capabilities and market expertise for our core industries. We will continue to invest in technology and innovation that will accelerate the build-out of our portfolio of next-generation solutions, such as platform-based descriptive and predictive analytics services for processing flows of "Big Data" to help customers gain better insight into their processes and businesses. As an example, on behalf of our customers, we are deploying Big Data automation platforms to analyze individual consumer behavior and interaction patterns to identify opportunities for revenue enhancement and loss prevention, and configure optimal outreach campaigns to drive sales, loyalty, and profitability.
- **Pursue meaningful cost synergy opportunities and accelerate long-term profitability.** Due to similar operating infrastructures between SourceHOV and Novitex, we continue to deliver and believe we have additional opportunities across information technology, operations, facilities, and corporate functions to achieve cost savings executable as we approach three years from the closing of the Novitex Business Combination.
- **Capitalize on our enhanced scale and operating capacity.** We intend to utilize our increased global scale and brand recognition to strengthen our ability to bid on new opportunities. We plan to dedicate more resources to pursue whitespace coverage to expand our range of service offerings and pursue additional cross-selling opportunities. We will also look to use our increased scale and operations expertise to improve utilization of our assets. As an example, we have pursued a strategy of consolidating smaller regional document processing centers to our two Tier-III document processing and outsourcing centers in Windsor, Connecticut, and Austin, Texas that we call "MegaCenters," which are increasing efficiency through economies of scale. By driving utilization up from the current levels of the MegaCenters, we will benefit from high flow through margins from increased revenues with minimal incremental investment.

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### **Customers**

We serve over 4,000 customers across a variety of industries, including over 60% of the Fortune® 100. Our customers are among the leading companies in their respective industries, and many of them are recurring customers that have maintained long-term relationships with us and our predecessor companies.

We have successfully leveraged our relationships with customers to offer extended value chain services, creating stickier customer relationships and increasing overall margins. Customers are increasingly turning to us due to a demonstrated ability to work on large-scale projects, past performance and record of delivery, and deep domain expertise accumulated from years of experience in key verticals. We believe, our stable base of customers and sticky, long-term relationships lead to predictable revenues.

#### *Industry Highlights*

EIM	Healthcare	Banking	Legal	Commercial	Public Sector
<b>100B</b> Multi-Media Transactions Stored Online	<b>700,000</b> Complex Claims Processed Daily	<b>\$1T+</b> Deposits Processed Annually	<b>\$20B</b> Funds Distributed	<b>\$600B</b> Invoices Processed Annually	<b>\$500M+</b> Electronic Medical Records Processed Annually

We maintain a strong mix of diversified customers with low customer concentration. No customer accounts for more than 10% of 2019 revenue. The diversity of our customer base has contributed to the stability and predictability of our revenue streams and cash flows. We have been able to effectively balance our customer mix and reduce dependency on any single customer or vertical by penetrating a diverse set of end markets.

### **Research and Development**

Our ability to continue to compete successfully depends heavily upon our ability to ensure a timely flow of competitive products, services and technologies to the marketplace while also leveraging our domain expertise to demonstrate our understanding in implementing solutions across the industries we serve. Through regular and sustained investment, licensing of intellectual property and acquisition of third-party businesses and technology, we continue to develop new knowledge platforms, applications and supporting service bundles that enhance and expand our existing suite of services.

Our seven-layer technology model requires us to continue to harness our capabilities in each layer and the ultimate measure of success will be how many customers are in each layer. We believe that a greater customer concentration in the top layers will reflect the success of our R&D strategy. Additional financial information regarding our R&D expense is included in Note 2 within our consolidated financial statements.

### **Intellectual Property**

We deploy a combination of internally developed proprietary knowledge platforms, applications and generally available third-party licensed software as part of our scalable and flexible solutions and services. We believe our intellectual property is our competitive strength.

Our platforms aim to enhance information management and workflow processes through automation and process optimization to minimize labor requirements or to improve labor performance. Our decisioning engines have

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been built with years of deep domain expertise, incorporating hundreds of thousands of customer and industry specific rules which enable efficiency and lowers cost preparation and decisioning of transactions. Our business processes and implementation methodologies are confidential and proprietary and include trade secrets that are important to our business. We own a variety of trademarks and patents, which are registered or pending.

We regularly enter into nondisclosure agreements with customers, business partners, employees, and contractors that require confidential treatment of our information to establish, maintain and enforce our intellectual property rights. Our licensed intellectual properties are generally governed by written agreements of varying durations, including some with fixed terms that are subject to renewal based on mutual agreement. Generally, each agreement may be further extended, and we have historically been able to renew most existing agreements before they expire. We expect these and other similar agreements to be extended so long as it is mutually advantageous to both parties at the time of renewal.

### **Competition**

We believe that the principal competitive factors in providing our solutions include proprietary platforms, industry specific knowledge, quality, reliability and security of service, and price. We are differentiated competitively given our scale of operations, reputation as a trusted partner with deep domain expertise, innovative solutions, and highly integrated technology platforms that provide customers with end-to-end services addressing many aspects of their mission-critical operational processes. We continue to integrate best practice delivery processes into our service-delivery capabilities to improve its quality and service levels and to increase operational efficiencies. The markets in which we serve are competitive with both large and small businesses, as well as global companies:

- Multi-national companies that provide data aggregation, information management and workflow automation services, such as IBM, EMC, OpenText, Hyland, Iron Mountain, Canon, and Ricoh;
- Consulting, discrete process and platform integration service providers such as Fiserv, Jack Henry, FIS, Black Knight Financial, Optum, Broadridge Financial Solutions, Computershare, Cognizant, and Accenture;
- Platform and front-end software providers, such as Workday, Salesforce, Blackline and Pega;
- Multi-shore BPO companies, such as Genpact, Cognizant, Exl service, Conduent, Wipro, and WNS; and
- Smaller, niche service providers in specific verticals or geographic markets.

### **Regulation and Compliance**

We handle, directly or indirectly through customer contracts and business associate agreements, a significant amount of information, including personal and health-related information, which results in our being subject to federal, state and local privacy laws, including the Gramm-Leach-Bliley Act, HIPAA and the HITECH Act of 2009. Further, we are subject to the local rules and regulations, including those relating to the handling of information, in the other countries in which we operate. In addition, services in our LLPS segment, though not directly regulated, must be provided in a manner consistent with the relevant legal framework. For example, our bankruptcy claims administration services must be provided in accordance with the requirements and deadlines of the United States Bankruptcy Code and Federal Rules of Civil Procedure. In addition, some of our customers are subject to regulatory oversight, which may result in our being reviewed from time to time by such oversight bodies. Further, as a government contractor, we are subject to associated regulations and requirements.

Changes to existing laws, introduction of new laws, or failure to comply with existing laws that are applicable to us may subject us to, among other things, additional costs or changes to our business practices, liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to obtain and process

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information and allegations by our customers and customers that we have not performed our contractual obligations, any of which may have a material adverse effect on profitability and cash flow.

### *Privacy and Information Security Regulations*

Data privacy laws and regulations in the U.S. and foreign countries apply to the access, collection, transfer, use, storage, and destruction of personal information in connection with our services. In the U.S., our financial institution customers are required to comply with privacy regulations imposed under the Gramm-Leach-Bliley Act, in addition to other regulations. As a processor of personal information in our role as a provider of services to financial institutions, we are bound by similar limitations on disclosure of the information received from our customers as apply to the financial institutions themselves. We also perform services for healthcare companies and are, therefore, subject to compliance with laws and regulations regarding healthcare information, including HIPAA in the U.S. We also perform credit-related services and agree to comply with payment card standards, including the PCI DSS. In addition, federal and state privacy and information security laws, and consumer protection laws, which apply to businesses that collect or process personal information, also apply to our businesses.

Privacy laws and regulations may require notification to affected individuals, federal and state regulators, and consumer reporting agencies in the event of a security breach that results in unauthorized access to, or disclosure of, certain personal information. Privacy laws outside the U.S. may be more restrictive and may require different compliance requirements than U.S. laws and regulations and may impose additional duties on us in the performance of our services.

There has been increased public attention regarding the use of personal information and data transfer, accompanied by legislation and regulations intended to strengthen data protection, information security and consumer and personal privacy. The law in these areas continues to develop and the changing nature of privacy laws in the U.S., the European Union ("E.U.") and elsewhere could impact our processing of personal information of our employees and on behalf of our customers. In the E.U. the comprehensive General Data Protection Regulation (the "GDPR") went into effect in May 2018. The GDPR has introduced significant privacy-related changes for companies operating both in and outside the EU. In the U.S., California has adopted the California Consumer Privacy Act, which went into effect on January 1, 2020, and several states are considering adopting similar laws imposing obligations regarding the handling of personal information. While we believe that we are compliant with our regulatory responsibilities, information security threats continue to evolve resulting in increased risk and exposure. In addition, legislation, regulation, litigation, court rulings, or other events could expose us to increased costs, liability, and possible damage to our reputation.

### **Employees**

The continued success of our business is driven by our people. Our senior leadership team has extensive experience within the larger BPO as well as the BPA industries. As we were formed through a series of acquisitions, we have retained an experienced and cohesive leadership team. The combination of our employees with our technology is the backbone of our ability to provide holistic solutions designed to meet the rapidly evolving needs of our customers.

As of December 31, 2019, we had approximately 22,700 total employees, of which approximately 1,000 are part-time employees. We have a global workforce with a majority of our employees located in Americas and EMEA, and the remainder located in India, the Philippines and China. Our employee count fluctuates from time to time based upon the timing and duration of our engagements. We consider our relationship with our employees to be good.

We locate our operation centers in areas where the value proposition it offers is attractive relative to other local opportunities, resulting in an engaged educated multi-lingual workforce that is able to make a meaningful global contribution from their local marketplace. We offer our employees a focused set of training programs to increase their skills and leadership capabilities with the goal of creating a long-term funnel of talent to support the Company's continued growth. Additionally, our proprietary platforms enable rapid learning and facilitate knowledge transfer among employees, reducing training time.

## Executive Officers

The following table sets forth information concerning our executive officers as of June 8, 2020:

Name	Age	Position
<b>Par Chadha</b>	65	Executive Chairman
<b>Ronald Cogburn</b>	64	Chief Executive Officer
<b>Shrikant Sortur</b>	47	Chief Financial Officer
<b>Suresh Yannamani</b>	55	President
<b>Mark Fairchild</b>	60	President, Exela Smart Office
<b>Srini Murali</b>	47	President, Americas and APAC
<b>Vitalie Robu</b>	48	President, EMEA

**Par Chadha** is our Executive Chairman and is the founder, Chief Executive Officer and Chief Investment Officer of HGM, a family office, formed in 2001, and was the principal stockholder of SourceHOV immediately prior to the Novitex Business Combination. Mr. Chadha also served as Chairman of SourceHOV from 2011 until the closing of the Novitex Business Combination and as Chairman of our Board of Directors from the closing of the Business Combination until March 27, 2020 when he became our Executive Chairman. Mr. Chadha brings over 40 years of experience in building businesses in the Americas, EMEA and Asia, including execution of mergers and acquisitions, integration of businesses and public offerings. Mr. Chadha is a co-founder of Rule 14, LLC, a leading big data mining and automation company formed in 2011, and during his career, Mr. Chadha has founded or co-founded other technology companies in the fields of metro optical networks, systems-on-silicon and communications. Through HGM, Mr. Chadha previously participated in director and executive roles in joint ventures with major financial and investment institutions, including Apollo Global Management, Inc., as well as other portfolio companies of HGM, and currently holds and manages investments in evolving financial technology, health technology and communications industries. Since 2005, Mr. Chadha has served as a Director of HOV Services Limited, a company listed on the National Stock Exchange of India, acting as its Chairman from 2009 to 2011. Mr. Chadha holds a B.S. degree in Electrical Engineering from Punjab Engineering College, India, and completed graduate-level coursework in computer science at the Illinois Institute of Technology.

**Ronald Cogburn** is our Chief Executive Officer and served as Chief Executive Officer of SourceHOV from 2013 until the closing of the Novitex Business Combination. Mr. Cogburn also serves on our Board of Directors. Mr. Cogburn has been part of companies that were predecessors to SourceHOV since 1993, bringing over 30 years of diversified experience in executive management, construction claims consulting, litigation support, program management project management, cost estimating, damages assessment and general building construction. Mr. Cogburn has also been a principal of HGM since 2003. Prior to his role as Chief Executive Officer of SourceHOV, Mr. Cogburn was SourceHOV's President, KPO from March 2011 to July 2013. Prior to this role, Mr. Cogburn was the President of HOV Services, LLC from January 2005 to September 2007, providing executive leadership during the company's growth to its IPO on the India Stock Exchange in September 2006. Mr. Cogburn has a BSCE in Structural Design/Construction Management from Texas A&M University and is a registered Professional Engineer.

**Shrikant Sortur** is our Chief Financial Officer and served as Executive Vice President, Global Finance from the Novitex Business Combination in 2017 until May 15, 2020. Mr. Sortur served as Senior Vice President, Global Finance of SourceHOV from 2016 until the closing of the Novitex Business Combination. He was responsible for SourceHOV's finance and accounting groups and led financial operations, activities, plans and budgets. Mr. Sortur's career spans more than 19 years of varied experience in financial management, accounting, reporting, and lean operations. Mr. Sortur served in other management roles in predecessor companies to SourceHOV from 2002 until the closing of the Novitex Business Combination. Mr. Sortur also acted as Vice President of Finance of SourceHOV from June 2015 to May 2016. Mr. Sortur acted as Director of Financial Planning and Analysis, TPS from January 2014 to June 2015. Prior to this role, Mr. Sortur was the Director of Financial Planning and Analysis, North America Operations from January 2012 to December 2013. Mr. Sortur acted as Controller for HOV Global from January 2009 to December 2011. Mr. Sortur was a Senior Accounting Manager for HOV Services, LLC / Lason, Inc. from May 2004 to December 2008 and worked for the SourceHOV group as a Manager, Finance & Accounts for Lason India Ltd. from December 2002 to May 2014. From March 1999 to December 2002, Mr. Sortur served as General Manager, Finance at SRM Technologies, a business

solutions and technology provider specializing in software design and development, systems integration, web services, enterprise mobilization, and embedded solutions development. From June 1997 to February 1999, Mr. Sortur served as Junior Manager, Finance and Accounting for Steel Authority of India, a large state-owned steel making company based in New Delhi, India. Mr. Sortur graduated from Osmania University with a bachelor's degree in accounting and is a Certified Public Accountant (CPA), Chartered Accountant (CA), and Certified Management Accountant (CMA).

**Suresh Yannamani** is our President and served as President, Americas of SourceHOV from 2011 until the closing of the Novitex Business Combination, and has been a part of companies that were predecessors to SourceHOV from 1997 until the closing of the Novitex Business Combination. Mr. Yannamani oversees the sales and operations and plays a large part in scaling the transaction processing solutions practice and enterprise solution strategy for healthcare, financial services and commercial industries. Mr. Yannamani was also President of HOV Services, LLC from 2007 to 2011, serving customers in the healthcare, financial services, insurance and commercial industries. Mr. Yannamani was the Executive Vice President of BPO services for Lason from 1997 to 2007 prior to its acquisition by HOV Services, LLC. Mr. Yannamani also served in management roles at IBM from 1995 to 1997, managing the design, development, and implementation of financial management information systems for the public sector and worked for Coopers & Lybrand as a consultant in public audits from 1992 to 1994. Mr. Yannamani has a bachelor's degree in Chemistry from the University of London and holds an MBA from Eastern Michigan University.

**Mark Fairchild** is our President, Exela SmartOffice and served as President of Exela Enterprise Solutions from the Novitex Business Combination until January 2019 and prior to that served as President, Europe, of SourceHOV from the merger of BancTec and SourceHOV in 2014, having served in management roles at BancTec since 1985. With more than 30 years of executive experience in the financial services industry, Mr. Fairchild specializes in global account management, transaction processing services, software solutions and hardware technology products. In 2005, Mr. Fairchild was appointed Chief Technology Officer of BancTec and was responsible for the company's software and hardware products, manufacturing and internal IT services until 2014. Prior to this role, Mr. Fairchild acted as Vice President for International Operations of BancTec from 2001 to 2005 and VP of European Operations from 1998 to 2001. In his role as International Systems Director from 1991 to 1998, Mr. Fairchild led the European software teams, implementing payment platforms throughout the region. As Director of Engineering of BancTec from 1989 to 1991, Mr. Fairchild led the research and development team that introduced a new high-speed digital image processing system that formed the base of BancTec's ImageFIRST product portfolio. Mr. Fairchild joined BancTec as a Project Manager, a position he held from 1985 to 1986. He began his career as a software developer at British Aerospace, where he worked from 1981 to 1985. Mr. Fairchild graduated with honors from Manchester University with a bachelor's degree in aeronautical engineering and holds an MBA from London Business School.

**Srini Murali** is our President, Americas and APAC and served as Chief Operating Officer Americas and APAC from the Novitex Business Combination until January 2019. He is responsible for all sales, operations and business strategy functions across the Americas and Asia Pacific. Prior to the Novitex Business Combination, Mr. Murali served as Senior Vice President, Operations for the Americas and APAC regions for SourceHOV, creating global operating strategies, developing client relationships, and overseeing compliance. Mr. Murali has been a part of predecessor companies to SourceHOV since 1993. During his tenure, Mr. Murali has held analysis, product development, IT, and operational roles. In 2010, Mr. Murali took on a broader scope of responsibility as SourceHOV's Senior Vice President of Global Operations and IT. Mr. Murali has served in executive-level leadership roles at companies that preceded SourceHOV since 2007, when he was appointed Vice President of IT and Technology. Prior to these management roles, Mr. Murali served as Director of Information Technology for Lason from 2002 to 2007, and as an Application Development Manager for Lason from 1998 to 2002. Before joining Lason, Mr. Murali worked as a Systems Engineer for Vetri Systems from 1996 to 1998. Mr. Murali graduated with a bachelor's degree in mathematics and statistics from Loyola College, Chennai, and earned an MBA from Davenport University, Michigan.

**Vitalie Robu** is our President, EMEA and served as Chief Operating Officer, EMEA from the Novitex Business Combination until January 2019. Mr. Robu is responsible for all sales, operations and business strategy functions across Europe, the Middle East and Africa. Mr. Robu specializes in transaction processing services, technology products, and software solutions, and has over 20 years of international management experience in the private and public sectors. Prior to the Novitex Business Combination, he served as Senior Vice President, Operations for the European region of SourceHOV from 2014. From 2010 to 2014, Mr. Robu held the position of President and Executive Director of

DataForce UK, a business process outsourcing and software provider that was part of SourceHOV. Prior to joining the SourceHOV group, Mr. Robu served as Manager of Investment and Insurance Products for Citibank EMEA in London from 2007 to 2010. Mr. Robu has degrees in International Relations from the National School for Political Studies, Bucharest and Physics from the State University of Moldova, and earned an MBA from IMD - International Institute for Management Development, Lausanne.

## **Available Information**

Our website address is [www.exelatech.com](http://www.exelatech.com). We are not including the information provided on our website as a part of, or incorporating it by reference into, this Annual Report. We make available free of charge (other than an investor's own internet access charges) through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission (the "SEC"). Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for these periods and any earnings releases or other communications relating to these periods. In addition, we make available our code of ethics entitled "Global Code of Ethics and Business Conduct" free of charge through our website. We intend to post on our website all disclosures that are required by law or Nasdaq listing standards concerning any amendments to, or waivers from, any provision of our code of ethics.

The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). The information contained on the websites referenced in this Annual Report is not incorporated by reference into this filing.

## **ITEM 1A. RISK FACTORS**

*In addition to the other information contained in this Annual Report, the following risks impact our business and operations. These risk factors are not exhaustive and all investors are encouraged to perform their own investigation with respect to our business, financial condition and prospects.*

### **Risks Related to our Business**

***We have substantial indebtedness and other obligations and any failure to meet our debt service obligations or restrictive covenants would have a material adverse effect on our business, financial condition, cash flows and results of operation and could cause the market value of our Common Stock to decline.***

As of December 31, 2019, we had approximately \$1.4 billion of long-term debt, excluding current maturities. In the fourth quarter of 2019, we announced a debt reduction and liquidity improvement initiative, which is part of the Company's strategic priority to position the Company to long-term success and increased stockholder value. As the first step of this initiative, the Company entered into a five year, \$160.0 million accounts receivable securitization facility in January 2020, which has a lower cost of debt than the Company revolving credit facility. The Company is also pursuing the sale of certain non-core assets. While the Company seeks to repay and/or refinance a material portion of its indebtedness through this initiative, there can be no assurance that such plan will be successful in whole or in part and, even if the plan is successful, we will still have a substantial amount of indebtedness outstanding. On March 26, 2020, the Delaware Court of Chancery entered a judgment against one of our subsidiaries in the amount of \$57,698,426 inclusive of costs and interest arising out of the Appraisal Action, which judgment will continue to accrue interest, until paid, at the legal rate, compounded quarterly. On May 7, 2020, we filed a motion for new trial in relation to share count. Following the Court's decision on the motion for new trial, SourceHOV has the right to appeal the judgment. However, at present the judgment has not been stayed, and we expect the petitioners to seek to enforce the judgment. If we are forced to pay the judgment (or bond the judgment pending an appeal, which will likely require cash collateral), such action could have a material adverse effect on our liquidity and/or cause our lenders to take action adverse to us. Our indebtedness and other obligations could: require a substantial portion of cash flow from operations to be dedicated to servicing our indebtedness, thereby reducing our ability to use cash flow from operations to fund operations, capital expenditures, and future business opportunities; increase the risks of adverse consequences resulting from a breach of

any indebtedness agreement, including, for example, a failure to make required payments of principal or interest due to failure of our business to perform as expected; decrease our ability to obtain additional financing for working capital, capital expenditures, general corporate or other purposes; limit our flexibility to make acquisitions; require non-strategic divestitures; increase our cash requirements to support the payment of interest; limit our flexibility in planning for, or reacting to, changes in our business and our industry; and increase our vulnerability to adverse changes in general economic and industry conditions. Our ability to make payments of principal and interest on our indebtedness and our ability to comply with financial covenants in our various debt agreements depends upon our future performance, which will be subject to general economic conditions and financial, business and other factors affecting our consolidated operations, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt and meet our other cash requirements, we may be required, among other things: to seek additional financing in the debt or equity markets; to refinance or restructure all or a portion of our indebtedness; to sell certain of our assets, to the extent permitted under our indebtedness agreements; or to reduce or delay planned capital or operating expenditures. Our ability to restructure or refinance our debt will depend on the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, any such financing, refinancing or sale of assets might not be available at all or on economically favorable terms. Our inability to generate sufficient cash flow to satisfy our debt service obligations or to refinance our obligations on commercially reasonable terms could have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our Common Stock to decline.

***Our future profitability and ability to sustain positive cash flow is uncertain.***

Our future profitability depends on, among other things, our ability to generate revenue in excess of our expenses. However, we have significant and continuing fixed costs relating to the maintenance of our assets and business, including debt service requirements, which we may not be able to reduce adequately to sustain our profitability if our revenue decreases. Our profitability also may be impacted by non-cash charges such as stock-based compensation charges and potential impairment of goodwill, which will negatively affect our reported financial results. Even if we achieve profitability on an annual basis, we may not be able to achieve profitability on a quarterly basis. You should not consider prior revenue growth as indicative of our future performance. In fact, in future quarters, we may not have any revenue growth or our revenue could decline. We may incur significant losses in the future for a number of reasons and risks described elsewhere herein and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events.

Our ability to continue to generate positive cash flow depends on our ability to generate collections from sales in excess of our cash expenditures. Our ability to generate and collect on sales can be negatively affected by many factors, including but not limited to our inability to convince new customers to use our services or existing customers to renew their contracts or use additional services; the lengthening of our sales cycles and implementation periods; changes in our customer mix; a decision by any of our existing customers to cease or reduce using our services; failure of customers to pay our invoices on a timely basis or at all; a failure in the performance of our solutions or internal controls that adversely affects our reputation or results in loss of business; the loss of market share to existing or new competitors; the failure to enter or succeed in new markets; regional or global economic conditions or regulations affecting perceived need for or value of our services; or our inability to develop new offerings, expand our offerings or drive adoption of our new offerings on a timely basis and thus potentially not meeting evolving market needs.

We anticipate that we will incur increased sales and marketing and general and administrative expenses as we continue to diversify our business into new industries and geographic markets. Our business will also require significant amounts of working capital to support our growth. We may not achieve collections from sales to offset these anticipated expenditures sufficient to maintain positive future cash flow. In addition, we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events that cause our costs to exceed our expectations. An inability to generate positive cash flow may decrease our long-term viability.

***Our results of operations could in the future be materially adversely impacted by the coronavirus pandemic (COVID-19).***

Our results of operations could in the future be materially adversely impacted by the coronavirus pandemic (COVID-19). We currently have two priorities: the safety and wellbeing of our employees and their families, and continuing to provide services to our customers in these unprecedeted times. The global spread of the coronavirus (COVID-19) has created significant volatility and uncertainty and economic disruption. The extent to which the coronavirus pandemic impacts our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration and scope of the pandemic; governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic; the impact of the pandemic on economic activity and actions taken in response; the effect on our customers and customer demand for our services and solutions; our ability to sell and provide our services and solutions, including as a result of travel restrictions and people working from home; the ability of our customers to pay for our services and solutions; and any closures of our and our customers' offices and facilities. The spread of the coronavirus has caused us to modify our business practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers and business partners.

We provide essential services including payment processing, bills and related exceptions for the financial sector, healthcare industry, and state, federal and local governments, and have accordingly been permitted to continue operating across most of our locations in the United States and across EMEA. The majority of our employees are located in the Americas and EMEA, representing 62% of our total headcount. Our locations in China are operating at full capacity and adding more volume and headcount. Close to two thirds of our India operations, totaling 4,900 employees, have transitioned to work from home and the remainder of volume is transitioning to work from home or is being routed to our other global sites, including China, Mexico and Poland. The closure of facilities, or restrictions inhibiting our employees' ability to access facilities, has disrupted, and could in the future disrupt our ability to provide our services and solutions and result in, among other things, terminations of customer contracts and losses of revenue. Customers may also slow down decision making, delay planned work or seek to modify existing agreements. Further, key personnel could contract the coronavirus hindering their ability to perform for us. One or more of our physical locations could become a cluster for the coronavirus, causing a large concentration of our employees to be adversely impacted and causing a significant disruption to our operations. Any of these events could cause or contribute to the risks and uncertainties enumerated in our filings with the SEC and could materially adversely affect our business, financial condition, results of operations and/or stock price.

***Our results of operations could be adversely affected by economic and political conditions, creating complex risks, many of which are beyond our control.***

Our business depends on the continued demand for our services, and if current global economic conditions worsen, our business could be adversely affected by our customers' financial condition and level of business activity. Along with our customers we are subject to global political, economic and market conditions, including inflation, interest rates, energy costs, the impact of natural disasters, disease, military action and the threat of terrorism. In particular, we currently derive, and are likely to continue to derive, a significant portion of revenues from customers located in North America and EMEA. Any future decreases in the general level of economic activity in these markets, such as decreases in business and consumer spending and increases in unemployment rates as have begun to be experienced as a result of the COVID-19 pandemic, could result in a decrease in demand for our services, thus reducing our revenue. For example, certain customers may decide to reduce or postpone their spending on the services we provide, and we may be forced to lower our prices. Other developments in response to economic events, such as consolidations, restructurings or reorganizations, particularly involving our customers, could also cause the demand for our services to decline, negatively affecting the amount of business that we are able to obtain or retain. We may not be able to predict the impact such conditions will have on the industries we serve and may be unable to plan effectively for or respond to such impact. In response to economic and market conditions, from time to time we have undertaken or may undertake initiatives to reduce our cost structure where appropriate, such as consolidation of resources to provide functional region-wide support to our international subsidiaries in a centralized fashion. These initiatives, as well as any future workforce and facilities reductions we may implement, may not be sufficient to meet current and future changes in economic and market conditions and allow us to continue to achieve the growth rates expected. In addition, costs actually incurred in connection with certain restructuring actions may be higher than our estimates of such costs and/or may not lead to the anticipated cost savings.

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Additionally, major political events, including the withdrawal of the United Kingdom from the European Union on January 31, 2020 (“Brexit”), continue to create uncertainty on topics that are relevant to our operations in the United Kingdom, such as immigration laws and employment laws, trade agreements and privacy laws. While the United Kingdom has agreed to follow all EU rules until December 31, 2020, and their trading relationship will remain the same during this period, the United Kingdom and the EU are currently in negotiations on the final terms of the United Kingdom’s withdrawal. We are currently examining the various possible impacts Brexit may have on our business and operating model in an effort to develop solutions to address any of the potential outcomes. In addition, it is possible that Brexit may adversely affect global economic conditions and financial markets, to a greater extent than we have currently anticipated.

In addition, any future disruptions or turbulence in the global credit markets may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers. Such disruptions may limit our ability to access financing, increase the cost of financing needed to meet liquidity needs and affect the ability of our customers to use credit to purchase our services or to make timely payments to us, adversely affecting our financial condition and results of operations.

***We have recorded significant goodwill impairment charges and may be required to record additional charges to future earnings if our goodwill or intangible assets become impaired.***

As of December 31, 2019, our goodwill balance was \$358.5 million which represented 28.0% of total consolidated assets. We are required under generally accepted accounting principles to review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets and/or goodwill may not be recoverable include a decline in stock price and market capitalization, slower growth rates in our industry or our own operations, and/or other materially adverse events that have implications on the profitability of our business or business segments. We may be required to record additional charges to earnings during the period in which any impairment of our goodwill or other intangible assets is determined which could have a material adverse impact on our results of operations. Even though these charges may be non-cash items and may not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our securities, including, without limitation, our Common Stock.

***Cybersecurity issues, vulnerabilities, and criminal activity resulting in a data or security breach could result in risks to our systems, networks, products, solutions and services resulting in liability or reputational damage.***

We collect and retain large volumes of internal and customer data, including personally identifiable information and other sensitive data both physically and electronically, for business purposes, and our various information technology systems enter, process, summarize and report such data. We also maintain personally identifiable information about our employees. Safeguarding customer, employee and our own data is a key priority for us, and our customers and employees have come to rely on us for the protection of their personal information. Augmented vulnerabilities, threats and more sophisticated and targeted cyber-related attacks pose a risk to our security and the security of our customers, partners, suppliers and third-party service providers, and to the confidentiality, availability and integrity of data owned by us or our customers. Despite our efforts to protect sensitive, confidential or personal data or information, we may be vulnerable to material security breaches, theft, misplaced or lost data, programming errors, employee errors and/or malfeasance that could potentially lead to the compromise of sensitive, confidential or personal data or information, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, defective products, production downtimes and operational disruptions. Despite protective measures, we may not be successful in preventing security breaches which compromise the confidentiality and integrity of this data. While an attempt is made to mitigate these risks by employing a number of measures, including employee training, monitoring and testing, and maintenance of protective systems and contingency plans, we remain vulnerable to such threats. The risk of such threats may be heightened as a result of an extended period of remote work arrangements due to the COVID-19 pandemic.

The sensitive, confidential or personal data or information that we have access to is also subject to privacy and security laws, regulations or customer-imposed controls. The regulatory environment, as well as the requirements imposed on us by the industries we serve governing information, security and privacy laws is increasingly demanding. Maintaining compliance with applicable security and privacy regulations may increase our operating costs and/or adversely impact our ability to provide services to our customers. Furthermore, a compromised data system or the intentional, inadvertent or negligent release or disclosure of data could result in theft, loss, fraudulent or unlawful use of customer, employee or our data which could harm our reputation or result in remedial and other costs, fines or lawsuits. In addition, a cyber-related attack could result in other negative consequences, including damage to our reputation or competitiveness, remediation or increased protection costs, litigation or regulatory action. Fraud, employee negligence, and unauthorized access, including, without limitation, malfunctions, viruses and other events beyond our control, may lead to the misappropriation or unauthorized disclosure of sensitive or confidential information we process, store and transmit, including personal information, for our customers, failure to prevent or mitigate data loss or other security breaches, including breaches of our vendors' technology and systems, could expose us or our customers to a risk of loss or misuse of such information, adversely affect our operating results, result in litigation or potential liability for us and otherwise harm our business. As a result, we may be subject to monetary damages, regulatory enforcement actions or fines under federal legislation, such as, the Gramm-Leach-Bliley Act and HIPAA, as well as various states' laws, such as the California Consumer Privacy Act ("CCPA"), which became effective on January 1, 2020 or under the GDPR in Europe. Similarly, regulations such as the Health Information Technology for Economic and Clinical Health Act provisions of the American Recovery and Reinvestment Act of 2009 expand the obligations of "covered entities" and their business associates, including certain mandatory breach notification requirements. In addition to any legal liability, data or security breaches may lead to negative publicity, reputational damage and otherwise adversely affect the results of our operations.

***Our industry may be adversely impacted by a negative public reaction in the U.S. and elsewhere to providing certain of our services from outside the U.S. and related legislation.***

We have based our strategy of future growth on certain assumptions regarding our industry and future demand in the market for the provision of business process solutions in part using offshore resources. However, providing services from offshore locations is a politically sensitive topic in the U.S. and elsewhere, and many organizations and public figures have publicly expressed concern about a perceived association between offshore service providers and the loss of jobs in their home countries. In addition, there has been some publicity about the negative experience of certain companies that provide their services offshore, particularly in India. The trend of providing business process solutions offshore may not continue and could reverse if companies elect to develop and perform their business processes internally or are discouraged from transferring these services to offshore service providers. Any slowdown or reversal of existing industry trends could negatively affect the amount of business that we are able to obtain or retain.

A variety of U.S. federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from providing their services from outside the U.S., including proposals for providing tax and other economic incentives for companies that create jobs in the U.S. by reducing their reliance on offshore locations. Other state bills have proposed requiring offshore service providers to disclose their geographic locations, requiring notice to individuals whose personal information is disclosed to non-U.S. affiliates or subcontractors, requiring disclosures of companies' foreign outsourcing practices or restricting U.S. private sector companies that have government contracts, grants or guaranteed loan programs from providing their services. Because most of our customers are located in the U.S., any expansion of existing laws or the enactment of new legislation that constrains our ability to provide our solutions from offshore or otherwise makes using our services unappealing or impractical for our customers could have a material and adverse effect on our business, results of operations, financial condition and cash flows.

***The HGM Group has significant influence over us and our corporate governance.***

The HGM Group has voting control of approximately 50% of our Common Stock. As long as the HGM Group owns or controls a significant percentage of outstanding voting power, it will have the ability to strongly influence all corporate actions requiring stockholder approval, including the election and removal of directors and the size of our board of directors, any amendment of our certificate of incorporation or bylaws, or the approval of any merger or other significant corporate transaction, including a sale of substantially all of our assets. In addition, pursuant to the terms of

the Director Nomination Agreement, the HGM Group has certain nomination rights with respect to our board of directors and consent rights over certain of our corporate actions.

Additionally, the HGM Group's interests may not align with the interests of our other stockholders. The HGM Group is in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. The HGM Group may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. In addition, our certificate of incorporation provides that we renounce any interest or expectancy in the business opportunities of the HGM Group and that it shall not have any obligation to offer to us those opportunities unless presented to one of our directors or officers in his or her capacity as a director or officer of Exela.

***Certain services we provide to customers in our public sector vertical may be subject to additional restrictions or limitations.***

Our engagements with entities in the public sector, may be subject to compliance with additional legislative or regulatory requirements. Certain state and local governments and agencies have adopted, or may in the future adopt, legislation or rules imposing additional requirements on services provided to the public sector, including restrictions as to where certain services can be performed or where certain data can be stored, even within the U.S. Additionally, our employees who are staffed on certain public sector engagements may be subject to strict background checks or other certifications. These additional requirements may make it more difficult to staff large public sector engagements, require us to turn down new engagements, affect our ability to meet customer expectations, deadlines or other specifications and otherwise increase our costs or decrease our revenues. Further, there can be no assurances that a public sector entity will not face funding shortages or reallocate funding for our services to other priorities, either prior to or after we have begun to perform our services, which could impact whether we are fully compensated for our services and could have a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, the results of the 2020 U.S. presidential election could have further impacts on our work in the public sector if new policies or funding priorities are enacted.

***Certain of our contracts are subject to termination rights, audits and/or investigations, which, if exercised, could negatively impact our reputation and reduce our ability to compete for new contracts and have an adverse effect on our business, results of operations and financial condition.***

Many of our customer contracts may be terminated by our customers without cause and without any fee or penalty, with only limited notice. Any failure to meet a customer's expectations, as well as factors beyond our control, including a customer's financial condition, strategic priorities, or mergers and acquisitions, could result in a cancellation or non-renewal of such a contract or a decrease in business provided to us and cause our actual results to differ from our forecasts. We may not be able to replace any customer that elects to terminate or not renew its contract with us, which would reduce our revenues.

In addition, a portion of our revenues is derived from contracts with the U.S. federal and state governments and their agencies and from contracts with foreign governments and their agencies. Government entities typically finance projects through appropriated funds. While these projects are often planned and executed as multi-year projects, government entities usually reserve the right to change the scope of or terminate these projects for lack of approved funding and/or at their convenience. Changes in government or political developments, including budget deficits, shortfalls or uncertainties, government spending reductions (e.g., during a government shutdown) or other debt or funding constraints could result in lower governmental sales and in our projects being reduced in price or scope or terminated altogether, which also could limit our recovery of incurred costs, reimbursable expenses and profits on work completed prior to the termination. The public procurement environment is unpredictable and this could adversely affect our ability to perform work under new and existing contracts. Also, our government business is subject to the risk that one or more of our potential contracts or contract extensions may be diverted by the contracting agency to a small or disadvantaged or minority-owned business pursuant to set-aside programs administered by the Small Business Administration, or may be bundled into large multiple award contracts for very large businesses. These risks can potentially have an adverse effect on our revenue growth and profit margins.

If the government finds that it inappropriately charged any costs to a contract, the costs are not reimbursable or, if already reimbursed, the cost must be refunded to the government. Additionally, if the government discovers improper or illegal activities or contractual non-compliance (including improper billing), we may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Any resulting penalties or sanctions could materially adversely affect our results of operations and financial condition. Moreover, government contracts are generally subject to audits and investigations by government agencies. Further, the negative publicity that could arise from any such penalties, sanctions or findings in such audits or investigations could have an adverse effect on our reputation in the industry and reduce our ability to compete for new contracts and could materially adversely affect our results of operations and financial condition.

***Our services and facilities may be impacted by terrorism, natural disasters and other disruptions, resulting in an adverse effect on our profitability and financial condition.***

Our ability to provide services may be impacted or disrupted as a result of natural disasters, technical disruptions (including power outage and telecommunications failure), man-made events (including cyber-attacks, war and terrorist attacks), and global health risks or pandemics, including the coronavirus, as well as the threat or perceived threat of any of these events in the U.S. or any of the locations in which we operate. A significant portion of our employees and key operations centers are located in India and the Philippines, with, particularly in India, limited diversification or redundancy. India and the Philippines are particularly susceptible to natural disasters, including typhoons, tsunamis, floods and earthquakes, and the Philippines is additionally susceptible to volcanic eruptions. Our operations in these locations, as well as certain other countries outside of the U.S., are also at greater risk of disruptions in electricity, other public utilities or network services due to substandard infrastructure. Although all of our operations centers have disaster management plans, certain disaster management facilities, particularly in India, may not be adequate to protect against potential disruptions due to natural or other disasters. Damage, destruction or disruptions, including to our MegaCenters, could make it difficult or impossible for employees to reach our business locations or otherwise interrupt our ability to provide our services. Sustained periods of interruption in our services could adversely affect our reputation and relationships with our customers, cause us to incur substantial expenses and expose us to liability. Our insurance coverage may not be sufficient to cover all of our potential losses and our business, results of operation and financial condition could be adversely affected.

Any disruption related to our U.S. data centers or MegaCenters due to any of the foregoing events may cause significant disruptions in our ability to provide our services to our customers and result in a material adverse effect on our reputation, results of operations and financial condition and our business, results of operations and financial condition could be adversely affected.

Although we believe that our insurance coverage with respect to disruptive events is reasonable, significant events such as acts of war and terrorism, economic conditions, judicial decisions, legislation, natural disasters and large losses could materially affect our insurance obligations and future expense.

***Our executives, senior management team and other key personnel are critical to our continued success and the loss of such personnel, or an inability to attract, engage, retain and integrate our executives and other key employees could harm our business.***

Our future success substantially depends on the continued service and performance of our executives, senior management team, as well as other key individuals in senior leadership positions. These personnel possess business and technical capabilities that are difficult to replace. The loss of any of our key personnel, particularly to competitors, may adversely affect our ability to effectively manage our current operations or meet ongoing and future business challenges. Further, identifying, developing internally or hiring externally, training and retraining highly-skilled managerial, technical, sales and services, finance and marketing personnel are critical to our future. Failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations.

***Our business, financial position, and results of operations could be harmed by adverse rating actions by credit rating agencies.***

If the credit ratings of our outstanding indebtedness are downgraded, or if rating agencies indicate that a downgrade may occur, our business, financial position, and results of operations could be adversely affected and perceptions of our financial strength could be damaged. A downgrade would have the effect of increasing our borrowing costs, and could decrease the availability of funds we are able to borrow, adversely affecting our business, financial position, and results of operations. In addition, a downgrade could adversely affect our relationships with our customers.

***Our current failure to meet the continued listing requirements of Nasdaq could result in a delisting of our Common Stock.***

Our Common Stock is currently listed for trading on The Nasdaq Capital Market, and the continued listing of our Common Stock on The Nasdaq Capital Market is subject to our compliance with a number of listing standards. In November 2019, we received a notice from Nasdaq that because the closing bid price for our Common Stock had fallen below \$1.00 per share for 30 consecutive business days, we no longer complied with the \$1.00 minimum bid price requirement for continued listing on The Nasdaq Capital Market under Rule 5550(a)(2) of the Nasdaq Listing Rules. Pursuant to Nasdaq Listing Rules, as tolled for the current COVID-19 pandemic, we have until August 10, 2020 to regain compliance with the minimum bid price requirement. To regain compliance, the closing bid price of the Company's Common Stock must meet or exceed \$1.00 per share for a minimum of 10 consecutive business days prior to August 10, 2020. In addition, in April 2020 we received an additional notice specifying that we are not in compliance with Nasdaq Listing Rule 5550(b)(2) because for 30 consecutive business days our Market Value of Listed Securities ("MVLS") was below the minimum requirement of \$35 million. While we have since regained compliance with the MVLS requirement by having our MVLS close at or above \$35 million for a minimum of ten consecutive business days, there can be no assurance that our MVLS will not again fall below \$35 million for a period of 30 consecutive business days.

If we do not regain compliance with the minimum bid price requirement by August 10, 2020, we may be eligible for an additional grace period. To qualify, we would be required to meet the continued listing requirements for MVLS and all other initial listing standards for The Nasdaq Capital Market, with the exception of the minimum bid price requirement, and provide written notice of our intention to cure the minimum bid price deficiency during the second compliance period. If we meet these requirements, the Nasdaq staff will grant an additional 180 calendar days for us to regain compliance with the minimum bid price requirement. If the Nasdaq staff determines that we will not be able to cure the deficiency, or if we are otherwise not eligible for such additional compliance period, Nasdaq will provide notice that our Common Stock will be subject to delisting. We would have the right to appeal a determination to delist our Common Stock, and the Common Stock would remain listed on The Nasdaq Capital Market until the completion of the appeal process. Separate from the bid price and MVLS issues, on April 2, 2020, the Company received a notice from Nasdaq notifying the Company that, as a result of its failure to timely file this Annual Report, it is not in compliance with Nasdaq Listing Rule 5250(c)(1), which requires timely filing of periodic reports with the SEC. In the notice, Nasdaq indicated that the Company had 60 calendar days from the date of the notice (or until June 2, 2020) to submit a plan to regain compliance with Nasdaq's continued listing requirements. The Company submitted its plan on June 1, 2020 requesting that the Nasdaq staff grant the Company until September 28, 2020, to regain compliance by filing this Form 10-K. If our Common Stock were no longer listed on The Nasdaq Capital Market, investors might only be able to trade on one of the over-the-counter markets. This would impair the liquidity of our Common Stock not only in the number of shares that could be bought and sold at a given price, which might be depressed by the relative illiquidity, but also through delays in the timing of transactions and reduction in media coverage. In addition, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our securities;
- a limited amount of news and analyst coverage for us; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

We may take actions to restore our compliance with Nasdaq's listing requirements, but we can provide no assurance that any such action taken by us would allow our Common Stock to become listed again, stabilize the market price or improve the liquidity of our Common Stock or prevent future non-compliance with Nasdaq's listing requirements.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the listing requirements of the Nasdaq and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources, particularly as we are no longer an emerging growth company. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and operating results and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

As a result of being a public company and these new rules and regulations, it is more expensive for us to obtain director and officer liability insurance, and in the future we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

***If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act"), and the listing standards of the Nasdaq Stock Market. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time consuming and costly, and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures

and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls or our internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of management evaluations of our internal control over financial reporting that we are required to include in our periodic reports that we file with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our Common Stock. In addition, if we are unable to meet these requirements, we may not be able to remain listed on the Nasdaq Stock Market.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 and based on its assessment, our management, including our CEO and CFO, has concluded that our internal control over financial reporting was not effective as of December 31, 2019 due to material weaknesses in our internal control over financial reporting.

Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results and cause a decline in the price of our Common Stock.

Internal control matters are more fully discussed in Part II—Item 9A—Controls and Procedures of this Annual Report.

***Downgrades in our credit ratings could impact our ability to access capital and materially adversely affect our business, financial condition and results of operations.***

Credit rating agencies continually review their ratings for the companies that they follow, including us. Credit rating agencies also evaluate the industries in which we and our affiliates operate as a whole and may change their credit rating for us based on their overall view of such industries. Both Moody's and Standard and Poor's downgraded our ratings during 2019. There can be no assurance that any rating assigned to our currently outstanding public debt securities will remain in effect for any given period of time or that any such ratings will not be further lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances so warrant.

A further downgrade of our credit ratings could, among other things:

- limit our ability to access capital or otherwise adversely affect the availability of other new financing on favorable terms, if at all;
- result in more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur;
- cause us to refinance indebtedness with less favorable terms and conditions, which debt may require collateral and restrict, among other things, our ability to pay distributions or repurchase shares;
- increase our cost of borrowing;
- adversely affect the market price of our outstanding debt securities; and
- impair our business, financial condition and results of operation.

**If we are unable to attract, train and retain skilled professionals, including highly skilled technical personnel to satisfy customer demand and senior management to lead our business globally, our business and results of operations may be materially adversely affected.**

Our success is dependent, in large part, on our ability to keep our supply of skilled professionals, including project managers, IT engineers and senior technical personnel, in balance with customer demand around the world and on our ability to attract and retain senior management with the knowledge and skills to lead our business globally. Each year, we must hire several hundred new professionals and retrain, retain, and motivate our workforce across the globe. Competition for skilled labor is intense and, in some jurisdictions in which we operate, there are more jobs for certain professionals than qualified persons to fill these jobs. Costs associated with recruiting and training professionals can be significant. If we are unable to hire or deploy employees with the needed skillsets or if we are unable to adequately equip our employees with the skills needed, this could materially adversely affect our business. Additionally, if we are unable to maintain an employee environment that is competitive and contemporary, it could have an adverse effect on engagement and retention, which may materially adversely affect our business. If more stringent labor laws become applicable to us or if a significant number of our employees unionize, our profitability may be adversely affected.

Increased labor costs due to competition, increased minimum wage or employee benefits costs (including various federal, state and local actions to increase minimum wages), unionization activity or other factors would adversely impact our cost of sales and operating expenses. For example, the State of California has passed regulations which increased minimum wage rates from \$10.50 per hour to \$15.00 per hour by 2022. In addition, the federal government and a number of other states are evaluating various proposals to increase their respective minimum wage. As minimum wage rates increase, we may need to increase not only the wages of our minimum wage employees but also the wages paid to employees at wage rates that are above minimum wage. As a result, we anticipate that our labor costs will continue to increase.

We are also subject to applicable rules and regulations relating to our relationship with our employees, including minimum wage and break requirements, health benefits, unemployment and sales taxes, overtime, and working conditions and immigration status. Legislated increases in the minimum wage and increases in additional labor cost components, such as employee benefit costs, workers' compensation insurance rates, compliance costs and fines, as well as the cost of litigation in connection with these regulations, would increase our labor costs. Unionizing and collective bargaining efforts have received increased attention nationwide in recent periods. While a small number of our employees belong to unions, should our employees become represented by unions, we would be obligated to bargain with those unions with respect to wages, hours, and other terms and conditions of employment, which is likely to increase our labor costs. Moreover, as part of the process of union organizing and collective bargaining, strikes and other work stoppages may occur, which would cause disruption to our business. Similarly, many employers nationally in similar environments have been subject to actions brought by governmental agencies and private individuals under wage-hour laws on a variety of claims, such as improper classification of workers as exempt from overtime pay requirements and failure to pay overtime wages properly, with such actions sometimes brought as class actions. These actions can result in material liabilities and expenses. Should we be subject to employment litigation, such as actions involving wage-hour, overtime, break, and working time, we may distract our management from business matters and result in increased labor costs. If costs of labor increase significantly, our business, results of operations, and financial condition may be adversely affected.

***We may not always offset increased costs with increased fees under long-term contracts.***

The pricing and other terms of our customer contracts, particularly our long-term contact center agreements, are based on estimates and assumptions we make at the time we enter into these contracts. These estimates reflect our best judgments regarding the nature of the engagement and our expected costs to provide the contracted services and could differ from actual results. Not all our larger long-term contracts allow for escalation of fees as our cost of operations increase and those that allow for such escalations do not always allow increases at rates comparable to increases that we experience. If and where we cannot negotiate long-term contract terms that provide for fee adjustments to reflect increases in our cost of service delivery, our business, financial conditions, and results of operation would be materially impacted.

***Our business process automation solutions often require long selling cycles and long implementation periods that may result in significant upfront expenses that may not be recovered.***

We often face long selling cycles to secure new contracts for our business process automation solutions. If we are successful in obtaining an engagement, the selling cycle can be followed by a long implementation period during which we plan our services in detail and demonstrate to the customer our ability to successfully integrate our solutions with the customer's internal operations. Our customers may experience delays in obtaining internal approvals or delays associated with technology or system implementations which can further lengthen the selling cycle or implementation period, and certain engagements may also require a ramping up period after implementation before we can commence providing our services. Even if we succeed in developing a relationship with a potential customer and begin to discuss the services in detail, the potential customer may choose a competitor or decide to retain the work in-house prior to the time a contract is signed. In addition, once a contract is signed, we sometimes do not begin to receive revenue until completion of the implementation period and our solution is fully operational. The extended lengths of our selling cycles and implementation periods can result in the incurrence of significant upfront expenses that may never result in profits or may result in profits only after a significant period of time has elapsed, which may negatively impact our financial performance. For example, we generally hire new employees to provide services in connection with certain large engagements once a new contract is signed. Accordingly, we may incur significant costs associated with these hires before we collect corresponding revenues. Our inability to obtain contractual commitments after a selling cycle, maintain contractual commitments after the implementation period or limit expenses prior to the receipt of corresponding revenue may have a material adverse effect on our business, results of operations and financial condition.

***We face significant competition from U.S.-based and non-U.S.-based companies and from our customers who may elect to perform their business processes in-house.***

Our industry is highly competitive, fragmented and subject to rapid change. We compete primarily against large multi-national information technology companies, focused BPO companies based in offshore locations, BPO divisions of information technology companies located in India, other BPO and consulting providers that focus on the legal sector and the in-house capabilities of our customers and potential customers. These competitors may include entrants from adjacent industries or entrants in geographic locations with lower costs than those in which we operate.

We believe that the principal competitive factors in our markets are breadth and depth of process expertise, knowledge of industries served, service quality, scalability of solutions, the ability to attract, train and retain qualified people, compliance rigor, global delivery capabilities, outcome-based pricing and sales and customer management capabilities. Some of our competitors have greater financial, marketing, technological or other resources, larger customer bases and more established reputations or brand awareness than we do. In addition, some of our competitors who do not have, or have limited, global delivery capabilities may expand their delivery centers to the countries in which we operate or increase their capacity in lower cost geographies, which could result in increased competition. Some of our competitors may also enter into strategic or commercial relationships among themselves or with larger, more established companies in order to benefit from increased scale and enhanced scope capabilities or enter into similar arrangements with potential customers. Further, we expect competition to intensify in the future as more companies enter our markets and customers consolidate the services they require among fewer vendors. Increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could result in reduced operating margins, which could adversely affect our business, results of operations and financial condition.

***Our industry is characterized by rapid technological change and failure to compete successfully within the industry and address rapid technological change could adversely affect our results of operations and financial condition.***

The process of developing new services and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. We must make long-term investments and commit significant resources before knowing whether these investments will eventually result in services that achieve customer acceptance and generate the revenues required to provide desired returns. If we fail to accurately anticipate and meet our customers' needs through the development of new technologies and service offerings or if our new services are not widely accepted, we could lose market share and customers to our competitors and that could materially adversely affect our results of operations and financial condition.

More specifically, the business process solutions industry is characterized by rapid technological change, evolving industry standards and changing customer preferences. The success of our business depends, in part, upon our ability to develop technology and solutions that keep pace with changes in our industry and the industries of our customers. Although we have made, and will continue to make, significant investments in the research, design and development of new technology and platforms-driven solutions, we may not be successful in addressing these changes on a timely basis or in marketing the changes we implement. In addition, products or technologies developed by others may render our services uncompetitive or obsolete. Failure to address these developments could have a material adverse effect on our business, results of operations and financial condition.

In addition, existing and potential customers are actively shifting their businesses away from paper-based environments to electronic environments with reduced needs for physical document management and processing. This shift may result in decreased demand for the physical document management services we provide such that our business and revenues may become more reliant on technology-based services in electronic environments, which are typically provided at lower prices compared to physical document management services. Though we have solutions for customers seeking to make these types of transitions, a significant shift by our customers away from physical documents to non-paper based technologies, whether now existing or developed in the future, could adversely affect our business, results of operation and financial condition.

Also, some of the large international companies in the industry have significant financial resources and compete with us to provide document processing services and/or business process services. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support. Our success in future performance is largely dependent upon our ability to compete successfully, to promptly and effectively react to changing technologies and customer expectations and to expand into additional market segments. To remain competitive, we must develop services and applications; periodically enhance our existing offerings; remain cost efficient; and attract and retain key personnel and management. If we are unable to compete successfully, we could lose market share and important customers to our competitors and that could materially adversely affect our results of operations and financial condition.

***We rely, in some cases, on third-party hardware and software, which could cause errors or failures of our services and could also result in adverse effects for our business and reputation if these third-party services fail to perform properly or are no longer available.***

Although we developed our platform-driven solutions internally, we rely, in some cases, on third-party hardware and software in connection with our service offerings which we either purchase or lease from third-party vendors. We are generally able to select from a number of competing hardware and software applications, but the complexity and unique specifications of the hardware or software makes design defects and software errors difficult to detect. Any errors or defects in third-party hardware or software incorporated into our service offerings, may result in a delay or loss of revenue, diversion of resources, damage to our reputation, the loss of the affected customer, loss of future business, increased service costs or potential litigation claims against us.

Further, this hardware and software may not continue to be available on commercially reasonable terms or at all. Any loss of the right to use any of this hardware or software could result in delays in the provisioning of our services, which could negatively affect our business until equivalent technology is either developed by us or, if available, is identified, obtained and integrated. In addition, it is possible that our hardware vendors or the licensors of third-party software could increase the prices they charge, which could have a material adverse impact on our results of operations. Further, changing hardware vendors or software licensors could detract from management's ability to focus on the ongoing operations of our business or could cause delays in the operations of our business.

***Some of the work we do involves greater risks than other types of claims processing or document management engagements.***

We provide certain business process solutions for customers that, for financial, legal or other reasons, may present higher risks compared to other types of claims processing or document management engagements. Examples of higher risk engagements include, but are not limited to:

- class action and other legal distributions involving significant sums of money;
- economic analysis and expert testimony in high stakes legal matters; and
- engagements where we receive or process sensitive data, including personal consumer or private health information.

While we attempt to identify higher risk engagements and customers and mitigate our exposure by taking certain preventive measures and, where necessary, turning down certain engagements, these efforts may be ineffective and an actual or alleged error or omission on our part, the part of our customer or other third parties or possible fraudulent activity in one or more of these higher-risk engagements could result in the diversion of management resources, damage to our reputation, increased service costs or impaired market acceptance of our services, any of which could negatively impact our business and our financial condition.

***We encounter professional conflicts of interest.***

We encounter professional conflicts of interest, particularly in our provision of expert witness testimony in certain of our legal engagement services. Although we have systems and procedures to identify potential conflicts of interest prior to accepting a new engagement, there is no guarantee that all potential conflicts of interest will be identified, and undetected conflicts may result in damage to our reputation and result in professional liability, which may adversely impact our business and results of operations. If we are unable to accept new engagements for any reason, including business and legal conflicts, our professionals may become underutilized or discontented, which may adversely affect our future revenues and results of operations, as well as our ability to retain these professionals.

***New, more stringent privacy and data security regulations may have a negative impact on our business.***

Any inability to adequately address privacy and security concerns could result in expenses and liability, and adverse impact on us. Moreover, international privacy and data security regulations may become more complex and have greater consequences. For instance, as of May 25, 2018, the General Data Protection Regulation, or GDPR, has replaced the Data Protection Directive with respect to the collection and use of personal data of data subjects in the EU. The GDPR applies extra territorially and imposes several stringent requirements for controllers and processors of personal data, including, for example, higher standards for obtaining consent from individuals to process their personal data, more robust disclosures to individuals and a strengthened individual data rights regime, shortened timelines for data breach notifications, limitations on retention of information, increased requirements pertaining to health data, other special categories of personal data and pseudonymised (i.e., key-coded) data and additional obligations when we contract third-party processors in connection with the processing of the personal data. The GDPR provides that EU member states may make their own further laws and regulations limiting the processing of personal data, including genetic, biometric or health data, which could limit our ability to use and share personal data or could cause our costs could increase, and harm our business and financial condition. Failure to comply with the requirements of GDPR and the applicable national data protection laws of the EU Member States may result in fines of up to €20,000,000 or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher, and other administrative penalties.

Similar to the GDPR, the CCPA, which became effective January 1, 2020, grants California residents with several new rights relating to their personal information. The CCPA applies to businesses that conduct business in California and satisfies one of three financial conditions, including a business that has a gross revenue greater than \$25 million. The CCPA sets forth several data protection obligations for applicable businesses, including, but not limited to

the obligations to inform a consumer, at or before collection, of the purpose and intended use of the collection; and to delete a consumer's personal information upon request. As for penalties and fines, the CCPA establishes a private right of action for serious data breaches, which allows consumers the right to seek damages. The CCPA also allows the California Attorney General to bring actions against non-compliant businesses with fines of \$2,500 per violation or, if intentional, up to \$7,500 per violation.

Any future failure by us to comply with the GDPR and/or CCPA could have a material adverse effect on our business, results of operations or financial condition. Further, as the GDPR and CCPA have recently come into effect, enforcement priorities and interpretation of certain provisions are still unclear. Industry groups also impose self-regulatory standards that bind us by their incorporation into the contracts we execute. For example, should we fail to be compliant with the PCIDSS we may be subject to fines and other penalties.

***Our business could be materially and adversely affected if we do not protect our intellectual property or if our services are found to infringe on the intellectual property of others.***

Our success depends in part on certain methodologies and practices we utilize in developing and implementing applications and other proprietary intellectual property rights. In order to protect such rights, we rely upon a combination of nondisclosure and other contractual arrangements, as well as trade secret, copyright, trademark and patent laws. We also generally enter into confidentiality agreements with our employees, customers and potential customers and limit access to and distribution of our proprietary information. There can be no assurance that the laws, rules, regulations and treaties in effect in the U.S., India and the other jurisdictions in which we operate and the contractual and other protective measures we take are adequate to protect us from misappropriation or unauthorized use of our intellectual property, or that such laws will not change. There can be no assurance that the resources invested by us to protect our intellectual property will be sufficient or that our intellectual property portfolio will adequately deter misappropriation or improper use of our technology, and our intellectual property rights may not prevent competitors from independently developing or selling products and services similar to or duplicative of ours. We may not be able to detect unauthorized use and take appropriate steps to enforce our rights, and any such steps may be costly and unsuccessful. Infringement by others of our intellectual property, including the costs of enforcing our intellectual property rights, may have a material adverse effect on our business, results of operations and financial condition. We could also face competition in some countries where we have not invested in an intellectual property portfolio. If we are not able to protect our intellectual property, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected. Further, although we believe that we are not infringing on the intellectual property rights of others, claims may nonetheless be successfully asserted against us in the future, and we may be the target of enforcement of patents or other intellectual property by third parties, including aggressive and opportunistic enforcement claims by non-practicing entities. Regardless of the merit of such claims, responding to infringement claims can be expensive and time-consuming. If we are found to infringe any third-party rights, we could be required to pay substantial damages or we could be enjoined from offering some of our products and services. The costs of defending any such claims could be significant, and any successful claim may require us to modify our services. The value of, or our ability to use, our intellectual property may also be negatively impacted by dependencies on third parties, such as our ability to obtain or renew on reasonable terms licenses that we need in the future, or our ability to secure or retain ownership or rights to use data in certain software analytics or services offerings. Any such circumstances may have a material adverse effect on our business, results of operations and financial condition.

***We generate a significant portion of our revenues from a small number of customers, and any loss of business from these customers could materially reduce our revenues.***

We have derived, and believe that in the foreseeable future we will continue to derive, a significant portion of our revenues from a small number of customers. While we have no one customer that accounts for more than 10% of our revenue, for each of the years ended December 31, 2019 and 2018, our ten largest customers accounted for approximately 26% of our revenues.

Our ability to maintain close relationships with these and other major customers is essential to the growth and profitability of our business. However, the volume of work performed for a specific customer is likely to vary from year to year. A major customer in one year may not provide the same level of revenues for us in any subsequent year and

there can be no assurance that any customer will extend or renew its contract with us. The business process solutions we provide to our customers, and the revenues and net income from those services, may decline or vary as the type and quantity of services we provide change over time. Furthermore, our reliance on any individual customer for a significant portion of our revenues may give that customer a certain degree of pricing leverage against us when negotiating contracts and terms of service.

In addition, a number of factors other than our performance could cause the loss of or reduction in business or revenues from a customer, and these factors are not predictable. For example, a customer may decide to reduce spending on business process solutions from us due to a challenging economic environment or other factors, both internal and external, relating to our business. These factors may include corporate restructuring, pricing pressure, changes to our outsourcing strategy, switching to another BPO provider or returning work in-house or other changes in a customer's prospects or profitability. The risk of customer loss may be heightened as a result of recent economic volatility due to the COVID-19 pandemic. The loss of any of our major customers, or a significant decrease in the volume of work they give to us or the price at which we are able to provide our services to them, could materially adversely affect our revenues and thus our results of operations.

***Our revenues are highly dependent on a limited number of industries, and any decrease in demand for business process solutions in these industries could reduce our revenues and adversely affect the results of operations.***

A substantial portion of our revenues are derived from three specific industry-based segments: ITPS, HS, and LLPS. Customers in ITPS accounted for 79.0% and 80.3% of our revenues in 2019 and 2018, respectively. Customers in HS accounted for 16.4% and 14.4% of our revenues in 2019 and 2018, respectively. Customers in LLPS accounted for 4.6% and 5.3% of our revenues in 2019 and 2018, respectively.

Our success largely depends on continued demand for our services from customers in these segments, and a downturn or reversal of the demand for business process solutions in any of these segments, or the introduction of regulations that restrict or discourage companies from engaging our services, could materially adversely affect our business, financial condition and results of operations. For example, consolidation in any of these industries or combinations or mergers, particularly involving our customers, may decrease the potential number of customers for our services. We have been affected by the worsening of economic conditions and significant consolidation in the financial services industry and continuation of this trend may negatively affect our revenues and profitability. The COVID-19 pandemic, may lead to further increased consolidation in the financial services industry as larger, better capitalized competitors will be in a stronger position to withstand prolonged periods of economic downturn and sustain their business through the financial volatility.

***We derive significant revenue and profit from commercial and government contracts awarded through competitive bidding processes, including renewals, which can impose substantial costs on us, and we will not achieve revenue and profit objectives if we fail to accurately and effectively bid on such projects.***

Many of these contracts are extremely complex and require the investment of significant resources in order to prepare accurate bids and proposals. Competitive bidding imposes substantial costs and presents a number of risks, including: (i) the substantial cost and managerial time and effort that we spend to prepare bids and proposals for contracts that may or may not be awarded to us; (ii) the need to estimate accurately the resources and costs that will be required to implement and service any contracts we are awarded, sometimes in advance of the final determination of their full scope and design; (iii) the expense and delay that may arise if our competitors protest or challenge awards made to us pursuant to competitive bidding and the risk that such protests or challenges could result in the requirement to resubmit bids and in the termination, reduction or modification of the awarded contracts; and (iv) the opportunity cost of not bidding on and winning other contracts we might otherwise pursue. If our competitors protest or challenge an award made to us on a government contract, the costs to defend such an award may be significant and could involve subsequent litigation that could take years to resolve.

***Our profitability is dependent upon our ability to obtain adequate pricing for our services and to improve our cost structure.***

Our success depends on our ability to obtain adequate pricing for our services. Depending on competitive market factors, future prices we obtain for our services may decline from previous levels. If we are unable to obtain adequate pricing for our services, it could materially adversely affect our results of operations and financial condition. In addition, our contracts are increasingly requiring tighter timelines for implementation as well as more stringent service level metrics. This makes the bidding process for new contracts much more difficult and requires us to adequately consider these requirements in the pricing of our services.

We regularly review our operations with a view towards reducing our cost structure, including, without limitation, reducing our employee base, exiting certain businesses, improving process and system efficiencies and outsourcing some internal functions. We, from time to time, engage in restructuring actions to reduce our cost structure. If we are unable to continue to maintain our cost base at or below the current level and maintain process and systems changes resulting from prior restructuring actions or to realize the expected cost reductions in the ongoing strategic transformation program, it could materially adversely affect our results of operations and financial condition.

In addition, in order to meet the service requirements of our customers, which often includes 24/7 service, and to optimize our employee cost base, including our back-office support, we often locate our delivery service and back-office support centers in lower-cost locations, including several developing countries. Concentrating our centers in these locations presents a number of operational risks, many of which are beyond our control, including the risks of political instability, natural disasters, safety and security risks, labor disruptions, excessive employee turnover and rising labor rates. Additionally, a change in the political environment in the U.S. or the adoption and enforcement of legislation and regulations curbing the use of such centers outside of the U.S. could materially adversely affect our results of operations and financial condition. These risks could impair our ability to effectively provide services to our customers and keep our costs aligned to our associated revenues and market requirements.

Our ability to sustain and improve profit margins is dependent on a number of factors, including our ability to continue to improve the cost efficiency of our operations through such programs as robotic process automation, to absorb the level of pricing pressures on our services through cost improvements and to successfully complete information technology initiatives. If any of these factors adversely materialize or if we are unable to achieve and maintain productivity improvements through restructuring actions or information technology initiatives, our ability to offset labor cost inflation and competitive price pressures would be impaired, each of which could materially adversely affect our results of operations and financial condition.

***We are subject to regular customer and third-party security reviews and failure to pass these may have an adverse impact on our operations.***

Many of our customer contracts require that we maintain certain physical and/or information security standards, and, in certain cases, we permit a customer to audit our compliance with these contractual standards. Any failure to meet such standards or pass such audits may have a material adverse impact on our business. Further, customers from time to time may require stricter physical and/or information security than they negotiated in their contracts, and may condition continued volumes and business on the satisfaction of such additional requirements. Some of these requirements may be expensive to implement or maintain, and may not be factored into our contract pricing. Further, on an annual basis we obtain third-party audits of certain of our locations in accordance with Statement on Standards for Attestation Engagements No. 16 (SSAE 16) put forth by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA). SSAE 16 is the current standard for reporting on controls at service organizations, and many of our customers expect that we will perform an annual SSAE 16 audit, and report to them the results. Negative findings in such an audit and/or the failure to adequately remediate in a timely fashion such negative findings may cause customers to terminate their contracts or otherwise have a material adverse effect on our reputation, results of operation and financial condition.

***Failure to adhere to the regulations that govern our business could have an adverse impact on our operations.***

Our customers are often subject to regulations that may require that we comply with certain rules and regulations in performing services for them that would not otherwise apply to us. U.S. federal laws and regulations that apply to certain portions of our business include the Gramm-Leach-Bliley Act, HIPAA, and the HITECH Act of 2009. We must also comply with applicable regulations relating to healthcare and other personal information that we process as part of our services. Due to our global delivery model, we are also subject to the burden and expense of complying with the laws and regulations of various jurisdictions and changes thereto which are beyond our control. In addition, our contracts with some of our customers require us to remain knowledgeable about and comply with a number of additional relevant consumer protection laws and other regulatory requirements. Failure to perform our services in a manner that complies with any such requirement could result in breaches of contracts with our customers. Our failure to comply with any applicable laws and regulations could subject us to civil fines and criminal penalties.

***A significant portion of our assets and operations are located in India, the Philippines, China and Mexico, and we are subject to regulatory, economic and political uncertainties in those locations.***

A significant number of our operations centers are located in India, the Philippines and China and a majority of our assets and our professionals are located in those locations. We intend to continue to develop and expand our facilities in these areas. Our financial performance may be adversely affected by general economic conditions and economic and fiscal policy in these countries, including changes in exchange rates and controls, interest rates and taxation policies, as well as social stability and political, economic or diplomatic developments affecting those countries in the future. These countries have experienced significant economic growth over the last several years, but face major challenges in sustaining that growth in the years ahead. These challenges include the need for substantial infrastructure development and improving access to healthcare and education. Our ability to recruit, train and retain qualified employees, develop and operate our operations centers, and attract and retain customers could be adversely affected if these countries do not successfully meet these challenges.

In the early 1990s, India experienced significant inflation, low growth in gross domestic product and shortages of foreign currency reserves. The Indian government, however, has exercised and continues to exercise significant influence over many aspects of the Indian economy. India's government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in specified sectors of the economy, including the BPO industry. Certain of those programs that have benefited us include tax holidays, liberalized import and export duties and preferential rules on foreign investment and repatriation. We cannot assure you that liberalization policies will continue. Various factors, such as changes in the current federal government, could trigger significant changes in India's economic liberalization and deregulation policies and disrupt business and economic conditions in India generally and our business in particular.

The Philippines has experienced significant inflation, currency declines and shortages of foreign exchange. In addition, the Philippines has experienced and may continue to experience civil unrest, terrorism and political turmoil, resulting in temporary work stoppages and technology outages. These instabilities and any adverse changes in the political environment in the Philippines could increase our operational costs, increase our exposure to legal and business risks and make it more difficult for us to operate our business in the Philippines.

Our business operations in China may be adversely affected by our current and future political environment and the outbreak of the coronavirus. The Chinese government can exert substantial influence and control over the manner in which companies in China conduct business. Under the current government leadership, the government of China has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of China will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

Our ability to efficiently conduct our business activities in Mexico is subject to changes in government policy or shifts in political attitudes that are beyond our control. Government policy may change to discourage foreign investment, nationalization of industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. In addition, Mexico may experience political instability, which may result in

outbreaks of civil unrest, drug-related violence, terrorist attacks or threats or acts of war in the affected areas, any of which could materially and adversely affect our business, prospects, financial condition and results of operations.

***Introduction of tax legislation and disputes with tax authorities may have an adverse effect on our operations and our overall tax rate.***

Governments in countries in which we operate or provide services could enact new tax legislation that could have a material adverse effect on our overall effective tax rate. In addition, our ability to repatriate surplus earnings, if any, from our operations centers in a tax-efficient manner is dependent upon interpretations of local laws, possible changes in such laws and the renegotiation of existing double tax avoidance treaties. Changes to any of these may adversely affect our overall tax rate, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, the transfer pricing regulations of the U.S. and certain foreign jurisdictions, including India, require that any cross-border transaction involving related parties be at an arm's-length price. Accordingly, we base our pricing between our foreign subsidiaries and related parties on a functional and economic analysis involving benchmarking against transactions among entities that are not related. However, the tax authorities have jurisdiction to review our transfer-pricing policy. If they conclude the policy was not applied appropriately, we may incur additional tax liability, including accrued interest and penalties.

***Sales tax laws in the U.S. may change resulting in service providers having to collect sales taxes in states where the current laws do not require us to do so. This could result in substantial tax liabilities.***

Our U.S. subsidiaries collect and remit sales tax in states in which the subsidiaries have physical presence or in which we believe sufficient nexus exists which obligates us to collect sales tax. Other states may, from time to time, claim that we have state-related activities constituting physical nexus to require such collection. Additionally, many other states seek to impose sales tax collection or reporting obligations on companies that sell goods to customers in their state, or directly to the state and its political subdivisions, regardless of physical presence. Such efforts by states have increased recently, as states seek to raise revenues without increasing the income tax burden on residents. We rely on U.S. Supreme Court decisions which hold that, without Congressional authority, a state may not enforce a sales tax collection obligation on a company that has no physical presence in the state. We cannot predict whether the nature or level of contacts we have with a particular state will be deemed enough to require us to collect sales tax in that state nor can we be assured that Congress or individual states will not approve legislation authorizing states to impose tax collection or reporting obligations on our activities. A successful assertion by one or more states that we should collect sales tax could result in substantial tax liabilities related to past sales and would result in considerable administrative burdens and costs for us.

***Restrictions on entry visas may affect our ability to compete for and provide services to customers in the U.S., which could have a material adverse effect on future revenues.***

A significant number of our employees are foreign nationals, including from India, the Philippines and China. Certain members of our development team based in India travel to the U.S. on a regular basis to facilitate new project development, including the implementation of new contracts and to meet our U.S. customers. The ability of these employees to travel to the U.S. and other countries in which we do business depends on the ability to obtain the necessary visas and entry permits.

In response to political forces, terrorist attacks, the global economic downturn, global disease, public sentiments of high unemployment rates in certain parts of the U.S. and other events, U.S. immigration authorities have increased the level of scrutiny in granting visas and applicable immigration laws may be subject to legislative change and varying standards of application and enforcement. We cannot predict the political or economic events that could affect immigration laws or any restrictive impact those events could have on obtaining or monitoring entry visas for our professionals.

***Investors may have difficulty effecting service of process or enforcing judgments obtained in the U.S. against our non-U.S. subsidiaries.***

We have significant operating subsidiaries that are organized outside the U.S. A portion of our assets are located in India, the Philippines, China, Mexico, and Canada. As a result, you may be unable to effect service of process upon our affiliates who reside in these jurisdictions. In addition, you may be unable to enforce against these persons outside the jurisdiction of their residence judgments obtained in U.S. courts, including judgments predicated solely upon U.S. federal securities laws.

***Currency fluctuations among the Euro, British Pound, Indian rupee, the Philippine Peso, the Mexican Peso, the Canadian Dollar, the Chinese Yuan and the U.S. Dollar could have a material adverse effect on our results of operations.***

We operate internationally and as a result, are subject to risks associated with doing business globally, such as risks related to the differing legal, political and regulatory requirements and economic conditions of many jurisdictions. Risks inherent to operating internationally include changes in a country's economic or political conditions, in foreign currency exchange rates, regulatory requirements and enforcement of intellectual property rights.

The functional currencies of our businesses outside of the U.S. are the local currencies. Changes in exchange rates between these foreign currencies and the U.S. Dollar will affect the recorded levels of our assets, liabilities, net sales, cost of goods sold and operating margins and could result in exchange gains or losses. The primary foreign currencies to which we have exposure are the European Union Euro, Swedish Krona, British Pound Sterling, Canadian Dollar and Indian rupees . Exchange rates between these currencies and the U.S. Dollar in recent years have fluctuated significantly and may do so in the future. Our operating results and profitability may be affected by any volatility in currency exchange rates and our ability to manage effectively currency transaction and translation risks. To the extent the U.S. Dollar strengthens against foreign currencies, our foreign revenues and profits will be reduced when translated into U.S. Dollars.

Although the vast majority of our revenues are denominated in U.S. dollars, a significant portion of our expenses are incurred and paid in Euros, British Pound Sterling, Swedish Krona, Indian rupees, and to a lesser extent in other currencies, including the Philippine Peso, the Mexican Peso, the Canadian dollar and the Chinese Yuan . We report our financial results in U.S. Dollars. The exchange rate between the Indian rupee and the U.S. Dollar has changed substantially in recent years and may fluctuate substantially in the future. Our results of operations may be adversely affected if such fluctuations continue, or increase, or other currencies fluctuate significantly against the U.S. Dollar.

Although we do not currently take steps to hedge our foreign currency exposures, should we choose in the future to implement a hedging strategy, there can be no assurance that our hedging strategy will be successful or that the hedging markets would have sufficient liquidity or depth to allow us to implement such a hedging strategy in a cost-effective manner. Further, the success of any potential hedging strategy could be impacted by any failure by the hedging counterparties to meet their contractual obligations.

***We are subject to laws of the United States and foreign jurisdictions relating to processing certain financial transactions, including payment card transactions and debit or credit card transactions, and failure to comply with those laws could subject us to legal actions and materially adversely affect our results of operations and financial condition.***

We process, support and execute financial transactions, and disburse funds, on behalf of both government and commercial customers, often in partnership with financial institutions. This activity includes receiving debit and credit card information, processing payments for and due to our customers and disbursing funds on payment or debit cards to payees of our customers. As a result, the transactions we process may be subject to numerous United States (both federal and state) and foreign jurisdiction laws and regulations, including the Electronic Fund Transfer Act, as amended, the Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (including the so-called Durbin Amendment), as amended, the Gramm-Leach-Bliley Act (also known as the Financial Modernization Act of 1999), as amended, and the

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Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended. Other United States (both federal and state) and foreign jurisdiction laws apply to our processing of certain financial transactions and related support services. These laws are subject to frequent changes, and new statutes and regulations in this area may be enacted at any time. Changes to existing laws, the introduction of new laws in this area or failure to comply with existing laws that are applicable to us may subject us to, among other things, additional costs or changes to our business practices, liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to process and support financial transactions and allegations by our customers, partners and clients that we have not performed our contractual obligations. Any of these could materially adversely affect our results of operations and financial condition.

***Failure to comply with the U.S. Foreign Corrupt Practices Act, or the FCPA, economic and trade sanctions, regulations, and similar laws could subject us to penalties and other adverse consequences.***

We operate our business in several foreign countries with developing economies and have contracts with foreign governments, where companies often engage in business practices that are prohibited by U.S. and other regulations applicable to us. We are subject to anti-corruption laws and regulations, including the FCPA, the U.K. Bribery Act and other laws that prohibit the making or offering of improper payments to foreign government officials and political figures, including anti-bribery provisions enforced by the Department of Justice and accounting provisions enforced by the SEC. These laws prohibit improper payments or offers of payments to foreign governments and their officials and political parties by the U.S. and other business entities for the purpose of obtaining or retaining business. We have implemented policies to identify and address potentially impermissible transactions under such laws and regulations; however, there can be no assurance that all of our and our subsidiaries' employees, consultants, and agents, including those that may be based in or from countries where practices that violate U.S. or other laws may be customary, will not take actions in violation of our policies, for which we may be ultimately responsible.

We are also subject to certain economic and trade sanctions programs that are administered by the Department of Treasury's Office of Foreign Assets Control, or OFAC, which prohibit or restrict transactions to or from or dealings with specified countries, their governments, and in certain circumstances, their nationals, and with individuals and entities that are specially-designated nationals of those countries, narcotics traffickers, and terrorists or terrorist organizations. Our subsidiaries may be subject to additional foreign or local sanctions requirements in other relevant jurisdictions.

***Fluctuations in the costs of paper, ink, energy, by-products and other raw materials may adversely impact the results of our operations.***

Purchases of paper, ink, energy and other raw materials represent a large portion of our costs. Increases in the costs of these inputs may increase our costs and we may not be able to pass these costs on to customers through higher prices. In addition, we may not be able to resell waste paper and other print-related by-products or may be adversely impacted by decreases in the prices for these by-products. Increases in the cost of materials may adversely impact customers' demand for our printing and printing-related services.

***The market for our securities remains volatile and may not continue, which would adversely affect the liquidity and price of our securities.***

The price of our securities, including, without limitation, our Common Stock, may continue to fluctuate significantly. An active trading market for our securities may not further develop or be sustained. In addition, the price of our securities can fluctuate due to general economic conditions and forecasts, our general business condition and the release of our financial reports.

***Changes in laws or regulations, or a failure to comply with any laws and regulations, may adversely affect our business, investments and results of operations.***

We are subject to laws, regulations and rules enacted by national, regional and local governments and Nasdaq. In particular, we are required to comply with certain SEC, Nasdaq and other legal or regulatory requirements.

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Compliance with, and monitoring of, applicable laws, regulations and rules may be difficult, time consuming and costly. Those laws, regulations and rules and their interpretation and application may also change from time to time and those changes could have a material adverse effect on our business, investments and results of operations. In addition, a failure to comply with applicable laws, regulations and rules, as interpreted and applied, could have a material adverse effect on our business and results of operations.

***If we are unable to successfully consummate acquisitions or experience delays in integrating acquisitions, it could have a material adverse effect on our business, financial condition and results of operations.***

One of our strategies to grow our business is to opportunistically acquire complementary businesses, technologies and services. This strategy depends in large part on our ability to find suitable acquisitions and finance them on acceptable terms. We may require additional debt or equity financing for future acquisitions, and doing so will be made more difficult by our indebtedness. Raising additional capital for acquisitions through debt financing could result in increased interest expense and may involve agreements that include covenants limiting or restricting our ability to take certain actions, such as incurring additional debt, making capital expenditures or declaring dividends. .

If we are unable to identify and acquire suitable acquisition candidates, we may experience slower growth. Further, we may face challenges in integrating any acquired business. These challenges include eliminating redundant operations, facilities and systems, coordinating management and personnel, retaining key employees, managing different corporate cultures and achieving cost reductions and cross-selling opportunities. Additionally, the acquisition and integration processes may disrupt our business and divert management attention and our resources. If we fail to successfully integrate acquired businesses, products, technologies and personnel, it could impair relationships with employees, clients and strategic partners, distract management attention from our core businesses, result in control failures and otherwise disrupt our ongoing business, any of which could have a material adverse effect on our business, financial condition and results of operations. We also may not be able to retain key management and other critical employees after an acquisition. In addition, we may be required to record future charges for impairment of goodwill and other intangible assets resulting from such acquisitions.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

We lease and own numerous facilities worldwide with larger concentrations of space in Texas, Michigan, Connecticut, California, India, Mexico, the Philippines, and China. The size of our active property portfolio as of December 31, 2019 was approximately 4.2 million square feet (square feet) and comprised of 157 leased properties and 7 owned properties including offices, sales offices, service locations, and production facilities. Many of our operating facilities are equipped with fiber connectivity and have access to other power sources. Substantially all of our operations facilities are leased under long term leases with varying expiration dates, except for the following owned locations: (i) three operations facilities in India with a combined building area of approximately 91,500 sq. ft., respectively, (ii) an operating facility in Georgiana, Alabama with an approximate building area of 20,000 sq. ft., (iii) an operating facility in Tallahassee, Florida consisting of four buildings with a combined building area of approximately 21,000 sq. ft., (iv) an operating facility in Troy, Michigan that will serve as the Company's primary data center with an approximate building area of 66,000 sq. ft. (v) an operating facility in Egham, England with an approximate building area of 11,000 sq. ft., and (vi) an innovation center in New York, NY with an approximate building area of 2,200 sq. ft. We also maintain an operating presence at approximately 900 customer sites.

Our properties are suitable to deliver services to our customers for each of our business segments. Our management believes that all of our properties and facilities are well maintained.

### **ITEM 3. LEGAL PROCEEDINGS**

#### *Appraisal Demand*

On September 21, 2017, former stockholders of SourceHOV, who owned 10,304 shares of SourceHOV common stock, filed an Appraisal Action. The Appraisal Action arose out of the Novitex Business Combination, and the petitioners sought, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses. During the trial the parties and their experts offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. SourceHOV argued the value was no more than \$1,633.85 per share and the petitioners argued the value was at least \$5,079.28 per share. On January 30, 2020, the Court issued its post-trial Memorandum Opinion in the Appraisal Action, in which it found that the fair value of SourceHOV as of the Closing Date was \$4,591 per share, and on March 26, 2020, the Court issued its final order and judgment awarding the petitioners \$57,698,426 inclusive of costs and interest. On May 7, 2020, SourceHOV filed a motion for new trial in relation to share count.

Following the Court's decision on the motion for new trial, SourceHOV has the right to appeal the judgment. At this time, we cannot determine whether such motion or an appeal would be successful. Per the Court's opinion, the legal rate of interest, compounded quarterly, accrues on the per share value from the Closing Date until the date of payment to petitioners.

As a result of the Appraisal Action, 4,570,734 shares of our Common Stock issued to Ex-Sigma 2 have been returned to the Company during the first quarter of 2020.

#### *Class Action*

On March 23, 2020, Plaintiff, Bo Shen, filed a putative class action against the Company, Ronald Cogburn, the Company's Chief Executive Officer, and James Reynolds, the Company's former Chief Financial Officer. Plaintiff claims to be a current holder of 4,000 shares of Company stock, purchased on October 4, 2019 at \$1.34/share. Plaintiff asserts two claims covering the purported class period of March 16, 2018 to March 16, 2020: (1) a violation of Section 10(b) and Rule 10b-5 of the Exchange Act against all defendants; and (2) a violation of Section 20(a) of the Exchange Act against Mr. Cogburn and Mr. Reynolds. The allegations stem from the Company's press release, dated March 16, 2020 (announcing the postponement of the earnings call and delay in filing of this Annual Report), and press release and related SEC filings, dated March 17, 2020 (announcing its intent to restate its financial statements for 2017, 2018 and interim periods through September 30, 2019). As of the date of this Annual Report, the Company has not been served with the complaint. At this early stage in the litigation, it is not practicable to render an opinion about whether an unfavorable outcome is probable or remote with respect to this matter; however, the Company believes it has meritorious defenses and will vigorously defend them.

#### *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 4. MINE SAFETY DISCLOSURES**

Not applicable

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

Our Common Stock is traded on the Nasdaq under the symbol "XELA." Set forth below is the high and low sales price of our Common Stock during the periods presented.

	Sales Price	
	High	Low
<b>Year Ended December 31, 2019</b>		
Fourth Quarter	\$ 1.63	\$ 0.27
Third Quarter	3.20	1.09
Second Quarter	4.00	1.65
First Quarter	4.68	3.12
<b>Year Ended December 31, 2018</b>		
Fourth Quarter	\$ 7.02	\$ 3.46
Third Quarter	7.34	4.65
Second Quarter	5.87	4.32
First Quarter	6.42	5.08

#### Stockholders

As of June 5, 2020 we had 70 record holders of our Common Stock.

#### Dividends

We have not paid any cash dividends on shares of our Common Stock. The payment of cash dividends in the future will be dependent upon our revenues and earnings, capital requirements, general financial condition, and is within the discretion of our board of directors.

#### Equity Compensation Plan Information

The following table provides information as of December 31, 2019, with respect to the shares of our Common Stock that may be issued under our existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and RSUs	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1)
Equity compensation plans approved by stockholders	5,247,005	4.14	2,339,353
Equity compensation plans not approved by stockholders	—	—	—
<b>Total</b>	<b>5,247,005</b>	<b>4.14</b>	<b>2,339,353</b>

- (1) The Company currently maintains the 2018 Stock Incentive Plan, which was approved by our board of directors on December 19, 2017 and subsequently approved by a majority of our stockholders by written consent on December 20, 2017. The 2018 Stock Incentive Plan became effective on January 17, 2018 and there were originally 8,323,764 shares of our Common Stock reserved for issuance under our 2018 Stock Incentive Plan.

## Sale of Unregistered Securities

There were no unregistered sales of equity securities in 2019 that have not been previously reported in a Quarterly Report on Form 10-Q or Current Report on Form 8-K.

## Issuer Purchases of Equity Securities

The table below sets forth information with respect to purchases made by or on behalf of us or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of shares of our Common Stock during the period of November 8, 2017 through the year ended December 31, 2019:

Period	Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
<b>Year Ended December 31, 2017</b>				
Fourth Quarter	49,300	\$ 4.97	49,300	4,950,700
<b>Year Ended December 31, 2018</b>				
First Quarter	—	—	49,300	4,950,700
Second Quarter	768,693	4.86	817,993	4,182,007
Third Quarter	225,504	4.96	1,043,497	3,956,503
Fourth Quarter	1,505,688	3.59	2,549,185	2,450,815
<b>Year Ended December 31, 2019</b>				
First Quarter	—	—	2,549,185	2,450,815
Second Quarter	237,962	2.51	2,787,147	2,212,853
Third Quarter	—	—	2,787,147	2,212,853
<b>Total</b>	<b>2,787,147</b>	<b>\$ 3.89</b>	<b>2,787,147</b>	<b>—</b>

- (1) 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 up to 5,000,000 shares of its Common Stock through various means, including, open market transactions, privately negotiated transactions or otherwise. The Share Buyback Program has expired. As of December 31, 2019, 2,787,147 shares had been repurchased under the Share Buyback Program. The Company records treasury stock using the cost method.

## ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below as of and for the years ended December 31, 2018 and 2017, have been restated to reflect adjustments to our previously issued financial statements as more fully discussed in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, in Note 3, “Restatement of Previously Issued Financial Statements” and in Note 20, “Unaudited Quarterly Financial Data” of the Consolidated Financial Statements included in Item 8 of this Annual Report. The following selected consolidated financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" of this Annual Report in order to fully understand factors that may affect the comparability of the financial data. The following selected Consolidated Balance Sheet data as of December 31, 2019 and 2018 and selected Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017 are derived from our audited financial statements included in Item 8 of this Annual Report. The historical results do not necessarily indicate results expected for any future period.

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(in thousands, except share and per share data)	Year Ended December 31,				
	2019	2018 (As Restated)	2017 (As Restated)	2016	2015
<b>Statements of Operations Information:</b>					
Revenue	\$ 1,562,337	\$ 1,586,222	\$ 1,145,891	\$ 789,926	\$ 805,232
Cost of revenue (exclusive of depreciation and amortization)	1,224,735	1,213,403	827,544	519,121	559,846
Selling, general and administrative expenses (exclusive of depreciation and amortization)	198,864	184,908	220,955	130,437	120,691
Depreciation and amortization	100,903	138,077	98,890	79,639	75,408
Impairment of goodwill and other intangible assets	349,557	48,127	69,437	—	—
Related party expense	9,501	12,403	33,431	10,493	8,977
<b>Operating (loss) income</b>	<b>(321,223)</b>	<b>(10,696)</b>	<b>(104,366)</b>	<b>50,236</b>	<b>40,310</b>
<b>Other expense (income), net:</b>					
Interest expense, net	163,449	155,991	129,676	109,414	108,779
Debt modification and extinguishment costs	1,404	1,067	35,512	—	—
Sundry expense (income), net	969	(3,271)	2,295	712	3,247
Other expense (income), net	14,429	(3,030)	(1,297)	—	—
<b>Net loss before income taxes</b>	<b>(501,474)</b>	<b>(161,453)</b>	<b>(270,552)</b>	<b>(59,890)</b>	<b>(71,716)</b>
Income tax (expense) benefit	(7,642)	(8,353)	61,068	11,787	26,812
<b>Net loss</b>	<b>(509,116)</b>	<b>(169,806)</b>	<b>(209,484)</b>	<b>(48,103)</b>	<b>(44,904)</b>
Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature	—	—	(16,375)	—	—
Cumulative dividends for Series A Preferred Stock	(3,309)	(3,655)	(2,489)	—	—
<b>Net loss attributable to common stockholders</b>	<b>(512,425)</b>	<b>(173,461)</b>	<b>(228,348)</b>	<b>(48,103)</b>	<b>(44,904)</b>
<b>Loss per share:</b>					
Basic	(3.52)	(1.17)	(2.18)	(0.75)	(0.7)
Diluted	(3.52)	(1.17)	(2.18)	(0.75)	(0.7)
<b>Weighted average number of shares outstanding (1):</b>					
Basic	145,718,936	147,773,089	104,914,382	64,024,557	64,024,557
Diluted	145,718,936	147,773,089	104,914,382	64,024,557	64,024,557

(1) Excluding in each case the 4,570,734 shares returned to the Company in the first quarter of 2020 in connection with the Appraisal Action.

(in thousands)	As of December 31,				
	2019	2018		2017	
		(As Restated)	(As Restated)	2016	2015
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 6,198	\$ 36,206	\$ 39,000	\$ 8,361	\$ 16,619
Accounts receivable, net of allowance for doubtful accounts	261,400	270,812	229,704	138,421	145,162
Working capital	(147,056)	(123,502)	(68,634)	(41,404)	18,162
Total Assets	1,258,324	1,627,823	1,717,232	969,486	960,048
Long-term debt, net of current maturities	1,398,385	1,306,423	1,276,094	983,502	975,142
Total liabilities	2,001,365	1,869,082	1,769,029	1,309,387	1,251,537
Total stockholders' deficit	(743,041)	(241,259)	(51,797)	(339,901)	(291,489)

Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for these periods and any earnings releases or other communications relating to these periods, and, for these periods, investors should rely solely on the financial statements and other financial data for the relevant periods included in this Annual Report.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward Looking Statements**

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the other Items included in this Annual Report and our December 31, 2019 Consolidated Financial Statements included elsewhere in this report. Certain statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."*

### **Overview of Restatement**

In this Annual Report on Form 10-K, the Company:

- (a) restates its Consolidated Balance Sheets as of December 31, 2018 and the related Consolidated Statements of Operations, Consolidated Statements of Comprehensive Loss, Consolidated Statements of Stockholders' Deficit, and Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2018 and 2017;
- (b) restates its "Selected Financial Data" in Item 6 for fiscal years 2018 and 2017; and
- (c) restates its Unaudited Quarterly Financial Data for the first three fiscal quarters in the fiscal year ended December 31, 2019 and each fiscal quarter in the fiscal year ended December 31, 2018.

The adjustments made as a result of the restatement are more fully discussed in Note 3, *Restatement of Previously Issued Financial Statements*, of the Notes to Consolidated Financial Statements included in this Annual Report. To further review the effects of the accounting errors identified and the restatement adjustments, see Part II—Item 6—Selected Financial Data in this Annual Report. For a description of the control deficiencies identified by management as a result of the investigation and our internal reviews, and management's plan to remediate those deficiencies, see Part II—Item 9A—Controls and Procedures.

Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for these periods and any earnings releases or other communications relating to these periods, and, for these periods, investors should rely solely on the financial statements and other financial data for the relevant periods included in this Annual Report. See Note 20, *Unaudited Quarterly Financial Data*, of the Notes to the Consolidated Financial Statements in this Annual Report for the impact of these adjustments on each of the quarterly periods in fiscal 2018 and for the first three quarters of fiscal 2019. Quarterly reports for fiscal 2020 will include restated results for the corresponding interim periods of fiscal 2019.

### **Background on the Restatement**

As previously disclosed in the Company's Current Report on Form 8-K filed with the SEC on March 17, 2020, the board of directors of the Company, based on the recommendation of the audit committee and in consultation with management, concluded that, because of errors identified in the Company's previously issued financial statements for the fiscal years ended December 31, 2018 and 2017 and the first three quarters of fiscal 2019, the Company would restate its previously issued financial statements, including the quarterly data for fiscal years 2019 and 2018 and its selected financial data for the relevant periods.

These errors were discovered during the course of preparing this Annual Report and the audit of the financial results for fiscal 2019. We have determined that these errors were the result of material weaknesses in internal control over financial reporting that are reported in management's report on internal control over financial reporting as of December 31, 2019 in Part II—Item 9A – Controls and Procedures of this Annual Report.

The restated financial statements correct the following errors:

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*Appraisal Action Liability Adjustments:*

- \$43.1 million, \$40.6 million and \$37.8 million understatement of accrued liabilities and total stockholders' deficit, as at September 30, 2019, December 31, 2018 and 2017, respectively, due to applying an incorrect accounting treatment for the obligation to pay the fair market value of the former stockholders' shares under the Appraisal Action.
- \$2.4 million, \$2.9 million and \$1.2 million understatement of loss for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, due to the unrecorded interest expense accrual associated with the Company's obligations related to the Appraisal Action. Interest should have been accrued in the relevant periods at the rate set by the Delaware Court of Chancery.

*Outsourced Contract Cost Adjustments:*

- A \$5.3 million understatement of loss for the nine months ended September 30, 2019 and a \$3.2 million overstatement of loss for the year ended December 31, 2018, due to the incorrect capitalization of employee training related costs during the set-up phase as costs of fulfilling contracts which should have been expensed under ASC 340-40. Additionally, an adjustment of \$15.4 million was recorded to increase accumulated deficit as of January 1, 2018 to correct the previously-recorded transition adjustment for costs of fulfilling contracts upon the adoption of ASC 606 and ASC 340-40. These errors resulted in \$17.3 million and \$12.0 million overstatement of intangible assets, net as of September 30, 2019 and December 31, 2018, respectively.

*Expense Reimbursement Adjustments:*

- A \$2.1 million understatement of loss and related party payables for the nine months ended September 30, 2019, due to non-accrual of the obligation to reimburse Ex-Sigma 2 for the discount to the market price on shares sold by Ex-Sigma 2 in a secondary offering in June 2019 and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment.
- A \$2.4 million understatement of loss and related party payables for the year ended December 31, 2018, due to non-accrual of the obligation to reimburse Ex-Sigma 2 for the underwriting discount and commission expenses of \$2.1 million and an advisory fee of \$0.3 million incurred by Ex-Sigma 2 in a secondary offering in April 2018 and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment.
- A \$1.5 million overstatement of loss for the nine months ended September 30, 2019, due to an amount paid to Ex-Sigma 2 in July 2019 for the fees incurred in connection with the secondary offering, out of a total reimbursable amount of \$4.5 million as discussed in the two bullet points above, was erroneously recorded as selling, general and administrative expenses.
- \$1.7 million and \$5.2 million understatement of loss for the nine months ended September 30, 2019 and for the year ended December 31, 2018, respectively, due to the unrecorded related party expense accrual associated with the Company's obligation to reimburse Ex-Sigma 2 in connection with premium payments made by Ex-Sigma 2 under the Margin Loan and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment. This error resulted in \$6.9 million and \$5.2 million understatement of related party payables as of September 30, 2019 and December 31, 2018, respectively.
- \$0.5 million and \$0.4 million overstatement of selling, general and administrative expenses and understatement of related party expense by the same amount for the nine months ended September 30, 2019 and year ended December 31, 2018, respectively, due to incorrect classification of related party expense as selling, general and administrative expenses. This error had no impact on net loss.

*Revenue Recognition Adjustments:*

- A \$4.8 million understatement of loss, for the year ended December 31, 2017, due to incorrect recognition of revenue of \$6.4 million and related cost of revenue of \$1.6 million in 2017 related to a multiple element

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arrangement that included a software license where vendor specific objective evidence (VSOE) of fair value was not established for the undelivered elements of the arrangement under the previous revenue recognition guidance in ASC 985-605. This error resulted in a \$6.4 million understatement of deferred revenue and a \$1.6 million understatement of prepaid expenses and other current assets as at December 31, 2017.

- A \$1.9 million understatement of revenues and understatement of cost of revenue by the same amount for the nine months ended September 30, 2019, due to incorrect application of the gross vs. net presentation guidance under ASC 606. The Company incorrectly netted the costs of rendering service from the revenue under a contract with one customer. This error had no impact on net loss.

### *Cash Flows Classification Adjustments:*

- \$0.1 million and \$34.5 million understatement of operating cash flows and overstatement of financing cash flows, for the years ended December 31, 2018 and 2017, respectively, due to the incorrect interpretation of ASU 2016-15 (*Classification of Certain Receipts and Cash Payments*) and application on a retrospective basis upon adoption of ASU 2016-15 in 2018.
- \$14.3 million, \$7.5 million and \$11.0 million overstatement of operating cash flows and understatement of investing cash flows, for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, due to misclassification of cash flows associated with outsourced contract costs.

### *Other Adjustments:*

- In addition to the errors described above, the restated financial statements also include adjustments to correct certain other immaterial errors, including previously unrecorded immaterial adjustments identified in audits of prior years' financial statements.

## **Overview**

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

## **History**

We are a former blank check company that completed our initial public offering on January 22, 2015. In July 2017, Exela Technologies, Inc. ("Exela"), formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), completed its acquisition of SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the business combination agreement dated February 21, 2017 ("Novitex Business Combination"). In conjunction with the completion of the Novitex Business Combination, Quinpario was renamed 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 our Common Stock, presented as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The acquisition of Novitex was treated as a business combination under ASC 805 and was accounted for using the acquisition method. The strategic combination of SourceHOV and Novitex formed Exela, which is one of the largest global providers of information processing solutions based on revenues.

## Basis of Presentation

This analysis is presented on a consolidated basis. In addition, a description is provided of significant transactions and events that have an impact on the comparability of the results being analyzed. Due to our specific situation, the presented financial information for the years ended December 31, 2019 and 2018 is only partially comparable to the financial information for the year ended December 31, 2017. Since SourceHOV was deemed the accounting acquirer in the Novitex Business Combination consummated on July 12, 2017, the presented financial information for the year ended December 31, 2017 includes the financial information and activities for SourceHOV for the period January 1, 2017 to December 31, 2017 (365 days) as well as the financial information and activities of Novitex for the period July 13, 2017 to December 31, 2017 (172 days). This lack of comparability needs to be taken into account when reading the discussion and analysis of our results of operations and cash flows. Furthermore, the presented financial information for the year ended December 31, 2017 also contains other costs that are directly associated with the Novitex Business Combination, such as professional fees, to support the our new and complex legal, tax, statutory and reporting requirements following the Novitex Business Combination.

## 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 TPS and EIM 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 many leading banks, insurance companies, and utilities, as well as hundreds of federal, state and government entities. Our ITPS offerings enable companies to increase availability of working capital, reduce turnaround times for application processes, increase regulatory compliance and enhance consumer engagement.

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

In April 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 acquisition comes with minimal customer overlap and is strategic to expanding Exela’s European business. Through the acquisition of Asterion, we expect to leverage brand awareness, strengthen margins, and expand the existing Asterion sales channels.

In July 2017, we completed the Novitex Business Combination. SourceHOV was deemed to be the accounting acquirer, and is a leading provider of platform-based enterprise information management and transaction processing solutions primarily for the healthcare, banking and financial services, commercial, public sector and legal industries. Through the acquisition of SourceHOV and Novitex, we expect to realize revenue synergies, leverage brand awareness, strengthen margins, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. We anticipate opportunities for growth through the ability to leverage additional future services and capabilities.

## **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.

As of December 31, 2019, we had approximately 22,700 employees globally, with 62% located in Americas and EMEA, and the remainder located primarily in India, the Philippines and China.

Costs associated with our employees represent the most significant expense for our business. We incurred personnel costs of \$721.9 million, \$687.3 million, and \$532.3 million for the years ended December 31, 2019, 2018 and 2017, respectively. The majority of our personnel costs are variable and are incurred only while we are providing our services.

## **Facilities**

We lease and own numerous facilities worldwide with larger concentrations of space in Texas, Michigan, Connecticut, California, India, Mexico, the Philippines, and China. Our owned and leased facilities house general offices, sales offices, service locations, and production facilities.

The size of our active property portfolio as of December 31, 2019 was approximately 4.2 million square feet and comprised of 157 leased properties and 7 owned properties.

We believe that our current facilities are suitable and adequate for our current businesses. Because of the interrelation of our business segments, each of the segments uses substantially all of these properties at least in part.

## **Key Performance Indicators**

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

- Revenue by segment;
- EBITDA; and
- Adjusted EBITDA.

## **Revenue**

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

### **EBITDA and Adjusted EBITDA**

We view EBITDA and Adjusted EBITDA as important indicators of performance of our consolidated operations. 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 integration 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**

#### **Year Ended December 31, 2019, Compared to Year Ended December 31, 2018**

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>(As Restated)</b>
<b>Revenue:</b>		
ITPS	\$ 1,234,284	\$ 1,273,647
HS	256,721	228,015
LLPS	71,332	84,560
<b>Total revenue</b>	<b>1,562,337</b>	<b>1,586,222</b>
<b>Cost of revenue (exclusive of depreciation and amortization):</b>		
ITPS	1,001,655	1,010,320
HS	180,045	151,877
LLPS	43,035	51,206
<b>Total cost of revenues</b>	<b>1,224,735</b>	<b>1,213,403</b>
<b>Selling, general and administrative expenses (exclusive of depreciation and amortization)</b>	<b>198,864</b>	<b>184,908</b>
Depreciation and amortization	100,903	138,077
Impairment of goodwill and other intangible assets	349,557	48,127
Related party expense	9,501	12,403
Operating loss	(321,223)	(10,696)
Interest expense, net	163,449	155,991
Debt modification and extinguishment costs	1,404	1,067
Sundry expense (income), net	969	(3,271)
Other expense (income), net	14,429	(3,030)
Net loss before income taxes	(501,474)	(161,453)
Income tax expense	(7,642)	(8,353)
<b>Net loss</b>	<b>\$ (509,116)</b>	<b>\$ (169,806)</b>

#### **Revenue**

Our revenue decreased \$23.9 million, or 1.5%, to \$1,562.3 million for the year ended December 31, 2019 compared to \$1,586.2 million for the year ended December 31, 2018. This decrease is primarily related to a decrease in our ITPS segment revenues of \$39.4 million and LLPS segment revenue of \$13.2 million. The decrease was partially offset by an increase in revenues in the HS segment by \$28.7 million. Our ITPS, HS, and LLPS segments constituted 79.0%, 16.4%, and 4.6% of our total revenue, respectively, for the year ended December 31, 2019, compared to 80.3%, 14.4%, and 5.3%, respectively, for the year ended December 31, 2018. The revenue changes by reporting segment were as follows:

ITPS—Revenues decreased \$39.4 million, or 3.1%, to \$1,234.3 million for the year ended December 31, 2019 compared to \$1,273.6 million for the year ended December 31, 2018. The decrease was primarily attributable to the low

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margin contract exit in the third quarter of 2018 and adverse currency impact that was offset partially by the revenue from acquisitions completed in 2018.

HS—Revenues increased \$28.7 million, or 12.6%, to \$256.7 million for the year ended December 31, 2019 compared to \$228.0 million for the year ended December 31, 2018. The increase was primarily attributable to the ramp up of new businesses.

LLPS—Revenues decreased \$13.2 million, or 15.6%, to \$71.3 million for the year ended December 31, 2019 compared to \$84.6 million for the year ended December 31, 2018. The decrease was primarily attributable to lower revenue resulting from legal claims administration services of \$11.3 million during the year ended December 31, 2019, compared to the year ended December 31, 2018.

### ***Cost of Revenue***

Cost of revenue increased \$11.3 million, or 0.9%, to \$1,224.7 million for the year ended December 31, 2019 compared to \$1,213.4 million for year ended December 31, 2018. The increase was primarily attributable to an increase in the HS segment of \$28.2 million that was offset by a decrease in the ITPS and LLPS segments of \$8.7 million and \$8.2 million respectively. The cost of revenue changes by operating segment was as follows:

ITPS—Cost of revenue decreased \$8.7 million, or 0.9%, to \$1,001.6 million for the year ended December 31, 2019 compared to \$1,010.3 million for year ended December 31, 2018. The decrease was attributable to the corresponding revenue decline and flow through of savings that was offset by cost inflation. Cost of revenue as a percentage of revenue increased by 190 basis points from 79.3% for the year ended December 31, 2018 to 81.2% for the year ended December 31, 2019.

HS—Cost of revenue was \$180.0 million for the year ended December 31, 2019, up \$28.2 million, or 18.5%, from \$151.9 million in for the year ended December 31, 2018. The increase was primarily attributable an increase in volumes and ramp up of the healthcare asset acquisition from 2018, including additions to our operational headcount for the large new deals. Cost of revenue as a percentage of revenue increased by 350 basis points from 66.6% for the year ended December 31, 2018 to 70.1% for the year ended December 31, 2019.

LLPS—Cost of revenue decreased \$8.2 million, or 16.0%, to \$43.0 million for the year ended December 31, 2019 compared to \$51.2 million for year ended December 31, 2018. The decrease was primarily attributable to the lower costs on the legal claims administration of \$5.8 million as a result of corresponding revenue decline. Cost of revenue as a percentage of revenue remained relatively flat from 60.6% for the year ended December 31, 2018 compared to 60.4% for the year ended December 31, 2019.

### ***Selling, General and Administrative Expenses (“SG&A”)***

Selling, general, and administrative expenses increased \$14.0 million, or 7.5%, to \$198.9 million for the year ended December 31, 2019 compared to \$184.9 million for the year ended December 31, 2018. The increase was primarily attributable to higher professional and legal expenses.

### ***Depreciation & Amortization***

Depreciation and amortization expense decreased \$37.2 million, or 26.9%, to \$100.9 million for the year ended December 31, 2019 compared to \$138.1 million for the year ended December 31, 2018. The decrease was primarily attributable to accelerated amortization of trademarks and trade name write off that ended on December 31, 2018.

### ***Impairment of Goodwill and Other Intangible Assets***

Impairment of goodwill and other intangible assets for the years ended December 31, 2019 and 2018 was \$349.6 million and \$48.1 million respectively. 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

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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 \$96.2 million and \$1.0 million, respectively. Due to continued depressed market capitalization during the three months ended December 31, 2019, another triggering event resulted in additional impairment charge of \$252.4 million to goodwill at LLPS and ITPS reporting unit.

***Related Party Expense***

Related party expense decreased \$2.9 million, or 23.4%, to \$9.5 million for the year ended December 31, 2019 compared to \$12.4 million for the year ended December 31, 2018. The decrease was primarily attributable to an overall reduction in the expenses required to be reimbursed to Ex-Sigma 2 pursuant to the terms of the Consent, Waiver and Amendment.

***Interest Expense***

Interest expense increased \$7.5 million, or 4.8%, to \$163.4 million for the year ended December 31, 2019, compared to \$156.0 million for the year ended December 31, 2018. The increase was primarily attributable accrued interest for the Appraisal Action.

***Loss on Extinguishment of Debt***

Loss on extinguishment of debt for the years ended December 31, 2019 and 2018 was \$1.4 million and \$1.1 million. The Repricing and issuance of the 2019 and 2018 Incremental Term Loans resulted in the partial debt extinguishment, for which Exela recognized \$1.4 million and \$1.1 million in debt extinguishment costs.

***Sundry Expense (income)***

Sundry expense increased by \$4.2 million to \$1.0 million for the year ended December 31, 2019 compared to \$(3.3) million for the year ended December 31, 2018. The increase was mainly attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

Other income for the years ended December 31, 2019 and 2018 was \$(14.4) million and \$3.0 million respectively. The decrease of \$17.5 million over the prior year period is primarily attributable to the Appraisal Action settlement expenses and 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.

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

Income tax expense decreased \$0.7 million to \$7.6 million for the year ended December 31, 2019 compared to \$8.4 million for the year ended December 31, 2018. The December 31, 2019 federal tax expense is primarily due to the impact of the TCJA.

## Results of Operations

### Year Ended December 31, 2018, Compared to Year Ended December 31, 2017

	Year Ended December 31,	
	2018 (As Restated)	2017 (As Restated)
<b>Revenue:</b>		
ITPS	\$ 1,273,647	\$ 820,677
HS	228,015	233,595
LLPS	84,560	91,619
<b>Total revenue</b>	<b>1,586,222</b>	<b>1,145,891</b>
<b>Cost of revenue (exclusive of depreciation and amortization):</b>		
ITPS	1,010,320	619,694
HS	151,877	152,290
LLPS	51,206	55,560
<b>Total cost of revenues</b>	<b>1,213,403</b>	<b>827,544</b>
<b>Selling, general and administrative expenses (exclusive of depreciation and amortization)</b>	<b>184,908</b>	<b>220,955</b>
Depreciation and amortization	138,077	98,890
Impairment of goodwill and other intangible assets	48,127	69,437
Related party expense	12,403	33,431
Operating loss	(10,696)	(104,366)
Interest expense, net	155,991	129,676
Debt modification and extinguishment costs	1,067	35,512
Sundry expense (income), net	(3,271)	2,295
Other income, net	(3,030)	(1,297)
Net loss before income taxes	(161,453)	(270,552)
Income tax benefit (expense)	(8,353)	61,068
<b>Net loss</b>	<b>\$ (169,806)</b>	<b>\$ (209,484)</b>

#### Revenue

Our revenue increased \$440.3 million, or 38.4%, to \$1,586.2 million for the year ended December 31, 2018 compared to \$1,145.9 million for the year ended December 31, 2017. This increase is primarily related to an increase in our ITPS segment revenues of \$453.0 million, which was primarily attributable to the acquisition of Novitex in 2017. The increase was partially offset by a decrease in revenues in the HS segment and LLPS segment of \$5.6 million and \$7.2 million, respectively. Our ITPS, HS, and LLPS segments constituted 80.3%, 14.4%, and 5.3% of our total revenue, respectively, for the year ended December 31, 2018, compared to 71.6%, 20.4%, and 8.0%, respectively, for the year ended December 31, 2017. The revenue changes by reporting segment were as follows:

**ITPS**—Revenues increased \$453.0 million, or 55.2%, to \$1,273.6 million for the year ended December 31, 2018 compared to \$820.6 million for the year ended December 31, 2017. The increase was primarily attributable to acquisitions in 2017 and 2018 which contributed \$445.0 million of the increase. The remaining increase in revenue was the result of net increases in services provided to ITPS customers.

**HS**—Revenues decreased \$5.6 million, or 2.4%, to \$228.0 million for the year ended December 31, 2018 compared to \$233.6 million for the year ended December 31, 2017. The decrease was primarily attributable to a decline in volume from a single customer who lost a contract from one of its customers. The decrease was partially offset by ramp up of new businesses

**LLPS**—Revenues decreased \$7.2 million, or 7.9%, to \$84.6 million for the year ended December 31, 2018 compared to \$91.6 million for the year ended December 31, 2017. The decrease was primarily attributable to lower revenue resulting from the sale of Meridian Consulting Group, LLC of approximately \$1.3 million and lower revenue

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from legal claims administration services of \$5.1 million during the year ended December 31, 2018, compared to the year ended December 31, 2017.

### **Cost of Revenue**

Cost of revenue increased \$385.9 million, or 46.6%, to \$1,213.4 million for the year ended December 31, 2018 compared to \$827.5 million for year ended December 31, 2017. The increase was primarily attributable to an increase in the ITPS segment of \$390.6 million, offset by decreases in the HS and LLPS segments of \$0.4 million and \$4.3 million, respectively. The cost of revenue changes by operating segment was as follows:

ITPS—Cost of revenue increased \$390.6 million, or 63.0%, to \$1,010.3 million for the year ended December 31, 2018 compared to \$619.7 million for year ended December 31, 2017. The increase was primarily attributable to acquisitions in 2018 and 2017, which contributed \$387.6 million.

HS—Cost of revenue decreased \$0.4 million, or 0.3%, to \$151.9 million for the year ended December 31, 2018 compared to \$152.3 million for year ended December 31, 2017. The decrease was due to the decline in volume from a single customer who lost a contract from one of its customers that was offset by an increase attributable to new project ramp costs.

LLPS—Cost of revenue decreased \$4.3 million, or 7.8%, to \$51.2 million for the year ended December 31, 2018 compared to \$55.6 million for year ended December 31, 2017. The decrease was primarily attributable to a decrease in revenues of \$1.0 million as a result of the sale of Meridian Consulting Group, LLC and a decrease from the legal claims administration of \$2.6 million.

### **Selling, General and Administrative Expenses (“SG&A”)**

Selling, general, and administrative expenses decreased \$36.0 million, or 16.3%, to \$184.9 million for the year ended December 31, 2018 compared to \$221.0 million for the year ended December 31, 2017. The decrease was primarily attributable to the 2017 expenses for professional fees related to the Novitex Business Combination, which contributed \$60.0 million in expense for the year ended December 31, 2017. The decrease is offset by increases attributable to acquisitions in 2018 and 2017 which contributed \$13.2 million in expense for the year ended December 31, 2018. The decrease was additionally offset by investments in our strategy to grow revenue and increases in public company and compliance costs.

### **Depreciation & Amortization**

Depreciation and amortization expense increased \$39.2 million, or 39.6%, to \$138.1 million for the year ended December 31, 2018 compared to \$98.9 million for the year ended December 31, 2017. The increase was primarily attributable to accelerated amortization of trademarks and trade names resulting in higher amortization expense for the years ended December 31, 2018 compared to the year ended December 31, 2017.

### **Impairment of Goodwill and Other Intangible Assets**

Impairment of goodwill and other intangible assets for the years ended December 31, 2018 and 2017 was \$48.1 million and \$69.4 million, respectively. As a result of declining revenue and a change in our branding and marketing strategy, we quantitatively assessed goodwill and other intangible assets as part of our annual impairment test. This assessment resulted in an impairment charge of \$44.4 million to goodwill at LLPS reporting unit, and \$3.7 million related to our trade names intangible assets.

### **Related Party Expense**

Related party expense decreased \$21.0 million, or 62.9%, to \$12.4 million for the year ended December 31, 2018 compared to \$33.4 million for the year ended December 31, 2017. The decrease was primarily attributable to the \$23.0 million of contract termination and advisory fees to HGM during 2017 in connection with the Novitex Business

Combination. Additionally, the July 2017 termination of the management agreement with HGM resulted in lower management fees expense of \$6.0M for the comparative period. The decrease was offset by an accrual of related party expenses of \$8.1 million required to be reimbursed to Ex-Sigma 2 pursuant to the terms of the Consent, Waiver and Amendment.

**Interest Expense**

Interest expense increased \$26.3 million, or 20.3%, to \$156.0 million for the year ended December 31, 2018 compared to \$129.7 million for the year ended December 31, 2017. The increase was primarily attributable to the issuance of new debt in conjunction with the Novitex Business Combination.

**Loss on Extinguishment of Debt**

Loss on extinguishment of debt for the years ended December 31, 2018 and 2017 was \$1.1 million and \$35.5 million, respectively. The decrease is directly related to the restructuring and Novitex Business Combination in 2017.

**Sundry Expense (income)**

Sundry expense increased by \$5.6 million to \$(3.3) million for the year ended December 31, 2018 compared to \$2.3 million for the years ended December 31, 2017. The increase was mainly attributable to foreign currency transaction losses associated with exchange rate fluctuations.

**Other Income**

Other income for the years ended December 31, 2018 and 2017 was \$3.0 million and \$1.3 million, respectively. The interest rate swap was not designated as a hedge. As such, changes in the fair value of the derivative of \$2.5 million are recorded directly in earnings.

**Income Tax (Expense) Benefit**

Income tax benefit decreased \$69.4 million to \$(8.4) million for the year ended December 31, 2018 compared to \$61.0 million for the year ended December 31, 2017. The December 31, 2018 federal tax expense is primarily due to the impact of the TCJA.

**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 integration 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—Indebtedness.”

**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

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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. These non-GAAP financial measures are not required to be uniformly applied, are not audited and should not be considered in isolation or as substitutes for results prepared in accordance with 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.

The following tables present a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the years ended December 31, 2019, 2018, and 2017:

	Year Ended December 31,		
	2019	2018 (As Restated)	2017 (As Restated)
Net Loss	\$ (509,116)	\$ (169,806)	\$ (209,484)
Taxes	7,642	8,353	(61,068)
Interest expense	163,449	155,991	129,676
Depreciation and amortization	100,903	138,077	98,890
EBITDA	(237,122)	132,615	(41,986)
Optimization and restructuring expenses (1)	73,936	54,235	42,525
Transaction and integration costs (2)	5,703	4,121	88,935
Non-cash equity compensation (3)	7,827	7,647	6,742
Other charges including non-cash (4)	21,382	25,554	518
Loss/(Gain) on sale of assets (5)	301	(867)	40
Loss/(Gain) on business disposals (6)	—	1,363	(588)
Management, board fees and expenses	—	—	4,153
Debt modification and extinguishment costs	1,404	1,067	35,512
Loss/(Gain) on derivative instruments (7)	4,337	(1,897)	(1,297)
Contract costs (8)	17,046	4,212	—
Dissenting shareholders expense (relating to the Appraisal Action)	10,431	—	—
Impairment of goodwill and other intangible assets	349,557	48,127	69,437
Adjusted EBITDA	254,802	276,177	203,991

- (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 that vested during the year at Ex-Sigma (the sole equity holder of Ex-Sigma 2) in the case of the SourceHOV 2013 Long Term Incentive Plan assumed by it in connection with the Novitex Business Combination and the Company under the 2018 Stock Incentive Plan.
- (4) Represents fair value adjustments to deferred revenue 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 a loss/(gain) recognized on the disposal of noncore-business assets.

- (7) Represents the impact of changes in the fair value of an interest rate swap entered into during the fourth quarter of 2017.
- (8) Represents costs incurred on new projects, contract start-up costs and project ramp costs.

## 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 and accounts receivable securitization 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. Under ASC Subtopic 205-40, *Presentation of Financial Statements—Going Concern* (“ASC 205-40”), the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its future financial obligations as they become due within one year after the date that the financial statements are issued. The Company believes management’s plans alleviate the substantial doubt about the entity’s ability to continue as a going concern for at least twelve months from the date that the accompanying financial statements included elsewhere in this Form 10-K were issued. Going concern matters are more fully discussed in Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*.

We currently expect to spend approximately \$20.0 to \$25.0 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 December 31, 2019, cash and cash equivalents totaled \$14.1 million and we had availability of \$14.2 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 has taken steps to increase its liquidity and 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.

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On January 10, 2020 certain subsidiaries of the Company entered into a \$160.0 million accounts receivable securitization facility with a five year term (the “A/R Facility”). The Company used the proceeds of the initial borrowings to repay outstanding revolving borrowings under the Company’s senior credit facility and to provide additional liquidity and funding for the ongoing business needs of the Company and its subsidiaries.

On March 16, 2020, the Company and its indirect wholly owned subsidiaries Merco Holdings, LLC and SourceHOV Tax, LLC (“SourceHov Tax”) entered into a Membership Interest Purchase Agreement (the “TBG Purchase Agreement”) with Gainline Source Intermediate Holdings LLC. Pursuant to the TBG Purchase Agreement, on March 16, 2020, Gainline Source Intermediate Holdings LLC acquired all of the outstanding membership interests of SourceHov Tax for a price of \$40.0 million, subject to adjustment as set forth in the TBG Purchase Agreement.

On March 26, 2020, the Delaware Court of Chancery entered a judgment against one of our subsidiaries in the amount of \$57.7 million inclusive of costs and interest arising out of the Appraisal Action, which judgment will continue to accrue interest, until paid, at the legal rate, compounded quarterly. On May 7, 2020, we filed a motion for new trial in relation to share count. Following the Court’s decision on the motion for new trial, SourceHOV has the right to appeal the judgment. However, at present the judgment has not been stayed, and we expect the petitioners to seek to enforce the judgment. If we are forced to pay the judgment (or bond the judgment pending an appeal, which will likely require cash collateral), such action could have a material adverse effect on our liquidity and/or cause our lenders to take action adverse to us.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The Company is currently evaluating the impact of the CARES Act, and at present expects that the refundable payroll tax credits and deferment of employer side social security payments provisions of the CARES Act will result in a material cash benefit to the Company. The Company will also defer certain payroll, social security and value added taxes in various European jurisdictions, as permitted under the recently enacted COVID-19 relief measures.

On May 18, 2020, the Company amended the Credit Agreement to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. Pursuant to the amendment, the Company also amended the Credit Agreement to, among other things: restrict the borrower and its subsidiaries’ ability to designate or invest in unrestricted subsidiaries; incur certain debt; create certain liens; make certain investments; pay certain dividends or other distributions on account of its equity interests; make certain asset sales or other dispositions (or utilize the proceeds of certain asset sales to reinvest in the business); or enter into certain affiliate transactions pursuant to the negative covenants under the Credit Agreement. Further, pursuant to the amendment, the borrower under the Credit Agreement is also required to maintain a minimum Liquidity (as defined in the amendment) of \$35.0 million. On May 21, 2020, the Company also amended the A/R Facility to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. In the event the Company delivers the annual and quarterly financial statements described above within the time frames stated within such agreements (which the Company believes it has now satisfied with respect to the annual financial statements, but not with respect quarterly financial statements), the Company will, upon delivery of such financial statements, be in compliance with the Credit Agreement, the indenture for its outstanding Notes and the A/R Facility with respect to the financial statement delivery requirements set forth therein. See those certain Current Reports on Form 8-K, filed by the Company on May 21, 2020 and May 22, 2020 for additional information on the amendments described above.

## Cash Flows

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

	Year Ended December 31,		
	2019	2018 (As Restated)	2017 (As Restated)
Cash flows (used in) provided by operating activities	\$ (63,851)	\$ 23,600	\$ 51,777
Cash flows (used in) provided by investing activities	(25,182)	(58,752)	(441,382)
Cash flows (used in) provided by financing activities	59,139	(2,605)	436,413
Subtotal	(29,894)	(37,757)	46,808
Effect of exchange rates on cash	139	122	429
Net increase/(decrease) in cash	(29,755)	(37,635)	47,237

### Analysis of Cash Flow Changes between the years ended December 31, 2019, December 31, 2018, and December 31, 2017

**Operating Activities**—Net cash used by operating activities was \$63.9 million for the year ended December 31, 2019, compared to \$23.6 million cash provided for the year ended December 31, 2018. The decrease of \$87.5 million in cash flow from operating activities was primarily driven by increase in operating loss by \$49.2 million including \$35.2 million lower Gross profit and \$14.0 million higher selling, general and administrative expenses in 2019 as compared to 2018. “Gross profit” is defined as revenue less cost of revenue (exclusive of depreciation and amortization). The rest of the decline was driven mainly by working capital items including \$13.7 million pay down of accounts payables and \$13.6 million pay down of related party payables as compared to 2018.

Net cash provided by operating activities was \$23.6 million for the year ended December 31, 2018, compared to \$47.1 million for the year ended December 31, 2017. The decrease of \$23.5 million in cash flow from operating activities was primarily driven by higher cash interest paid as compared to 2017 and an increase in accounts receivables due to higher revenue and related party payables.

**Investing Activities**—Net cash used in investing activities was \$25.2 million for the year ended December 31, 2019, compared to \$58.8 million for the year ended December 31, 2018. The decrease of \$33.6 million in cash used in investing activities was primarily due to a decrease in cash spent on acquisitions compared to previous year (in 2018 Company made three acquisitions in Europe and acquired certain healthcare assets) as well as lower capital expenditures to add Property, Plant & Equipment.

Net cash used in investing activities was \$58.8 million for the year ended December 31, 2018, compared to \$441.4 million for the year ended December 31, 2017. The decrease of \$382.5 million in cash used in investing activities was primarily due to a decrease in cash paid related to the Novitex Business Combination offset by cash spent on 2018 acquisitions.

**Financing Activities**—Net cash provided by financing activities was \$59.1 million for the year ended December 31, 2019, compared to cash used by financing activities of \$2.6 million for the year ended December 31, 2018. The increase of approximately \$62.0 million in cash provided by financing activities was primarily due to \$65 million of revolver draw during 2019.

Net cash used in financing activities was \$2.6 million for the year ended December 31, 2018, compared to cash provided by financing activities of \$441.1 million for the year ended December 31, 2017. The decrease of \$443.7 million in cash provided by financing activities was primarily due to the 2017 retirement of the old credit facilities and proceeds from the new credit facilities and proceeds from the issuance of stock in connection with the Novitex Business Combination versus 2018.

## **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.

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 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, by and among Exela Intermediate Holdings, LLC, the Company, Royal Bank of Canada, as administrative agent and collateral agent, and each of the lenders party thereto. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans. As of December 31, 2019, and 2018 the interest rate applicable for the first lien senior secured term loan was 8.38% and 9.38%.

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 Terms 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 cash spent for acquisitions, pay related fees, expenses and related borrowings for general corporate purposes.

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On May 18, 2020, the Company amended the Credit Agreement to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. Pursuant to the amendment, the Company also agreed to amend the Credit Agreement to, among other things: restrict the borrower and its subsidiaries' ability to designate or invest in unrestricted subsidiaries; incur certain debt; create certain liens; make certain investments; pay certain dividends or other distributions on account of its equity interests; make certain asset sales or other dispositions (or utilize the proceeds of certain asset sales to reinvest in the business); or enter into certain affiliate transactions pursuant to the negative covenants under the Credit Agreement. In addition, pursuant to the amendment, the borrower under the Credit Agreement is also required to maintain a minimum Liquidity (as defined in the amendment) of \$35.0 million.

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.

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. As of December 31, 2019, the Company was in compliance with all covenants required under these senior credit facilities.

### *Letters of Credit*

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

### *Senior Secured Notes*

Upon the closing of the Novitex Business Combination on July 12, 2017, the Company issued \$1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 (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 are guaranteed by subsidiary guarantors pursuant to a supplemental indenture. The Notes will mature on July 15, 2023. As of December 31, 2019, the Company was in compliance with all covenants required under the Notes.

### *Accounts Receivables Securitization Facility*

On January 10, 2020 certain subsidiaries of the Company entered into a \$160.0 million accounts receivable securitization facility with a five year term. The Company used the proceeds of the initial borrowings to repay outstanding revolving borrowings under the Company's senior credit facility and to provide additional liquidity and funding for the ongoing business needs of the Company and its subsidiaries. On May 21, 2020, the Company amended the A/R Facility to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020.

### **Potential Future Transactions**

We may, from time to time explore and evaluate possible strategic transactions, which may include joint ventures, as well as business combinations or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds will likely be required. Subject to applicable contractual restrictions, to obtain such financing, we may seek to use cash on hand, borrowings under our revolving credit facilities, or we may seek to raise additional debt or equity financing through private placements or through underwritten offerings. 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. In addition,

pursuant to the Registration Rights Agreement that we entered into in connection with the closing of the Novitex Business Combination, certain of our stockholders have the right to demand underwritten offerings of our Common Stock. We may from time to time in the future explore, with certain of those stockholders the possibility of an underwritten public offering of our Common Stock held by those stockholders. There can be no assurance as to whether or when an offering may be commenced or completed, or as to the actual size or terms of the offering.

### Critical Accounting Policies and Estimates

The preparation of financial statements requires the use of judgments and estimates. Our critical accounting policies are described below to provide a better understanding of how we develop our assumptions and judgments about future events and related estimations and how they can impact our financial statements. A critical accounting estimate is one that requires subjective or complex estimates and assessments, and is fundamental to our results of operations. We base our estimates on historical experience and on various other assumptions we believe to be reasonable according to the current facts and circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We believe the current assumptions, judgments and estimates used to determine amounts reflected in our consolidated financial statements are appropriate; however, actual results may differ under different conditions. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in this document.

*Goodwill and other intangible assets:* Goodwill and other intangible assets are initially recorded at their fair values. Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired. Our goodwill at December 31, 2019 and December 31, 2018 was \$358.5 million and \$708.3 million, respectively. Goodwill and other intangible assets not subject to amortization are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Intangible assets with finite useful lives are amortized either on a straight-line basis over the asset's estimated useful life or on a basis that reflects the pattern in which the economic benefits of the intangible assets are realized.

*Impairment of goodwill, long-lived and other intangible assets:* Long-lived assets, such as property and equipment and finite-lived intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability is measured by a comparison of their carrying amount to the estimated undiscounted cash flows to be generated by those assets. If the undiscounted cash flows are less than the carrying amount, we record impairment losses for the excess of the carrying value over the estimated fair value. Fair value is determined, in part, by the estimated cash flows to be generated by those assets. Our cash flow estimates are based upon, among other things, historical results adjusted to reflect our best estimate of future market rates, and operating performance. Development of future cash flows also requires us to make assumptions and to apply judgment, including timing of future expected cash flows, using the appropriate discount rates, and determining salvage values. The estimate of fair value represents our best estimates of these factors, and is subject to variability. Assets are generally grouped at the lowest level of identifiable cash flows, which is the reporting unit level for us. Changes to our key assumptions related to future performance and other economic factors could adversely affect our impairment valuation.

We conduct our annual goodwill impairment tests on October 1st of each year, or more frequently if indicators of impairment exist. When performing the annual impairment test, we have the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. If a qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we would be required to perform a quantitative impairment test for goodwill. A quantitative test requires comparison of fair value of the reporting unit to its carrying value, including goodwill. We use 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 the Guideline Public Company Method, our annual impairment test utilizes valuation multiples of publicly traded peer companies. For the Discounted Cash Flow Method, our annual impairment test utilizes discounted cash flow projections using market participant weighted average cost of capital calculation. If the fair value of goodwill at the reporting unit level is less than its carrying value, an impairment loss is recorded for the amount by which a reporting unit's carrying amount exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. During the third quarter of 2019, the Company concluded that a triggering event for an interim impairment analysis had occurred as discussed above. As part of the interim impairment assessment performed on September 30, 2019, 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 discounted 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 in the third quarter, the Company recorded an impairment charge of \$87.9 million (as restated) and \$8.3 million to goodwill at ITPS and LLPS reporting units, respectively. The Company did not perform a separate annual impairment test as of October 1, 2019 as the impairment test performed during the quarter-ended September 30, 2019 was one day from the annual impairment test date. Additionally, later during the fourth quarter of 2019, the Company conducted its annual budgeting process along with an update to its long-range plan. Following the completion of that process, 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, concluding that a second triggering event for an impairment analysis had occurred. As a result, we performed another quantitative impairment test as of December 31, 2019, resulting in an additional goodwill impairment charge of \$229.7 million and \$22.7 million to goodwill at ITPS and LLPS reporting units, respectively. Therefore, as a result of these two impairment assessments in the third and fourth quarters of 2019, a total impairment charge of \$348.6 was recorded to goodwill for the year ended December 31, 2019.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, allocation of assets and liabilities to reporting units, and determination of fair value. The determination of reporting unit fair value is sensitive to the amount of Revenue and EBITDA generated by us, as well as the Revenue and EBITDA market multiples used in the calculation. Additionally, the fair value is sensitive to changes in the valuation assumptions such as expected income tax rate, risk-free rate, asset beta, and various risk premiums. Unanticipated changes, including immaterial revisions, to these assumptions could result in a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and time frames, it is not possible to reasonably quantify the impact of changes in these assumptions.

In the process of reconciling the fair values of the Company's reporting units to its overall market capitalization, the Company used a combination of both quantitative and qualitative considerations, arriving at the implied control premium of 31.3%. The implied control premium was computed using the Company's closing stock price as of December 31, 2019. Further reductions in our stock price could result in additional goodwill impairment charges in the future due to the need to reconcile to market capitalization.

**Revenue:** We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily relating to the provision of business and transaction processing services within each of our segments. We do not have any significant extended payment terms, as payment is received shortly after goods are delivered or services are provided. *Refer to Note 2—Basis of Presentation and Summary of Significant Accounting Policies* for additional information regarding our revenue recognition policy.

**Income Taxes:** We account for income taxes by using the asset and liability method. We account for income taxes regarding uncertain tax positions and recognize interest and penalties related to uncertain tax positions in income tax benefit/(expense) in the consolidated statements of operations.

The Tax Cuts and Jobs Act (“TCJA”) was signed by the President of the United States and enacted into law on December 22, 2017. The TCJA significantly changes U.S. tax law by reducing the U.S. corporate income tax rate to 21% from 35%, adopting a territorial tax regime, creating new taxes on certain foreign sourced earnings and imposing a one-time transition tax on the undistributed earnings of certain non-U.S. subsidiaries.

Accounting Standards Codification Topic 740, Income Taxes (“ASC 740”) requires companies to account for the tax effects of changes in income tax rates and laws in the period in which legislation is enacted (December 22, 2017). ASC 740 does not specifically address accounting and disclosure guidance in connection with the income tax effects of the TCJA. Consequently, on December 22, 2017, the Securities and Exchange Commission staff issued Staff Accounting

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Bulletin No. 118 (“SAB 118”), to address the application of ASC 740 in the reporting period that includes the date the TCJA was enacted. SAB 118 allows companies a reasonable period of time to complete the accounting for the income tax effects of the TCJA.

Deferred income taxes are recognized on the tax consequences of temporary differences by applying enacted statutory tax rates applicable in future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, as determined under tax laws and rates. A valuation allowance is provided when it is more likely than not that all or some portion of the deferred tax assets will not be realized. Due to numerous ownership changes, we are subject to limitations on existing net operating losses under Section 382 of the Internal Revenue Code (the “Code”). In the event we determine that we would be able to realize deferred tax assets that have valuation allowances established, an adjustment to the net deferred tax assets would be recognized as a component of income tax expense through continuing operations.

We engage in transactions (such as acquisitions) in which the tax consequences may be subject to uncertainty and examination by the varying taxing authorities. Significant judgment is required by us in assessing and estimating the tax consequences of these transactions. While our tax returns are prepared and based on our interpretation of tax laws and regulations, in the normal course of business the tax returns are subject to examination by the various taxing authorities. Such examinations may result in future assessments of additional tax, interest and penalties. For purposes of our income tax provision, a tax benefit is not recognized if the tax position is not more likely than not to be sustained based solely on its technical merits. Considerable judgment is involved in determining which tax positions are more likely than not to be sustained.

**Business Combinations:** We allocate the total cost of an acquisition to the underlying assets based on their respective estimated fair values. Determination of fair values involves significant estimates and assumptions about highly subjective variables, including future cash flows, discount rates, and asset lives. The estimates of the fair values of assets and liabilities acquired are based upon assumptions believed to be reasonable and, when appropriate, include assistance from independent third-party valuation firms.

Because we are primarily a services business, our acquisitions typically result in significant amounts of goodwill and other intangible assets. Fair value estimates and calculations for these acquisitions will affect the amount of amortization expense, or possible impairment related charges recognized in future periods. We base our fair value estimates on assumptions we believe are reasonable, but recognize that the assumptions are inherently uncertain.

### **JOBs Act**

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, relax certain reporting requirements for qualifying public companies. We had previously elected to delay the adoption of new or revised accounting standards as an emerging growth company; however, we no longer qualify as an emerging growth company and will be required to comply with new or revised accounting standards using public company effective dates.

### **Recently Adopted and Recently Issued Accounting Pronouncements**

See Note 2 to the consolidated financial statements.

### **Internal Controls and Procedures**

As a publicly traded company, we are required to comply with the SEC’s rules implementing Section 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. For management’s assessment of internal control over financial reporting required by Item 308(a) of Regulation S-K for the year ended December 31, 2019 see Part II—Item 9A – Controls and Procedures for management’s report on the effectiveness of internal controls.

## Off Balance Sheet Arrangements

At December 31, 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.

The HGM Group and other former SourceHOV equity holders formed Ex-Sigma and its wholly-owned subsidiary, Ex-Sigma 2, to hold the Exela shares to be issued to SourceHOV as merger consideration upon the closing of the Novitex Business Combination and to invest in Exela immediately prior to the closing. Ex-Sigma 2 secured additional PIPE financing in the form of a \$55.8 million loan (the “Margin Loan”) that was used to purchase additional common and preferred shares from the Company to help meet the minimum cash requirements needed to close the Novitex Business Combination. As a result of these transactions, the Company issued 84,912,500 shares of Common Stock to Ex-Sigma 2 at the closing, which represented approximately 54.9% ownership in the Company at that time and were pledged as collateral for the Margin Loan.

The Company determined that Ex-Sigma was a variable interest entity and that the Company had a variable interest in Ex-Sigma through an expense reimbursement arrangement related to the Margin Loan and contained in the Consent, Waiver and Amendment. The Consent, Waiver and Amendment provided among other things for the Company to reimburse Ex-Sigma for costs and fees related to the maintenance of the Margin Loan, other than payments of principal, interest and original issue discount.

The Company was not the primary beneficiary because the Company did not have the power to direct the activities that most significantly impacted the economic performance of Ex-Sigma. Accordingly, the Company did not consolidate the financial statements of Ex-Sigma and did not have any assets or liabilities related to Ex-Sigma and the Company did not have an investment in Ex-Sigma. The Company reaffirmed its assessment as of June 8, 2020.

Ex-Sigma 2 paid off the balance of the Margin Loan as of December 31, 2019, and as such the maximum exposure to loss as a result of the Company’s involvement with Ex-Sigma is \$0. Ex-Sigma 2 distributed the shares held by it during the first quarter of 2020 and is no longer a shareholder of Exela. Ex-Sigma and Ex-Sigma 2 ceased to be variable interest entities upon the distribution that occurred on February 21, 2020.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

### Quantitative and Qualitative Disclosure About Market Risk

#### Interest Rate Risk

At December 31, 2019, we had \$1,514.8 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 \$15.1 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 expense (income), net. Other expense (income), net includes a loss of \$4.3 million and a gain of \$2.5 million related to changes in the fair value of the interest rate swap for the year ended December 31, 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are included herein:

<a href="#">Reports of Independent Registered Public Accounting Firm</a>	73
<a href="#">Consolidated Balance Sheets as of December 31, 2019 and 2018</a>	76
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2019, 2018, and 2017</a>	77
<a href="#">Consolidated Statements of Comprehensive Loss for the years ended December 31, 2019, 2018, and 2017</a>	78
<a href="#">Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2019, 2018, and 2017</a>	79
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018, and 2017</a>	82
<a href="#">Notes to the Consolidated Financial Statements</a>	83

## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors  
Exela Technologies, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Exela Technologies, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, stockholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 8, 2020 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

### *Restatement of Previously Issued Financial Statements*

As discussed in Note 3 to the consolidated financial statements, the 2018 and 2017 financial statements have been restated to correct misstatements.

### *Change in Accounting Principles*

As discussed in Notes 2 and 7 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Codification Topic 842, *Leases*.

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue as of January 1, 2018 due to the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

Detroit, Michigan  
June 8, 2020

## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors  
Exela Technologies, Inc.:

### *Opinion on Internal Control Over Financial Reporting*

We have audited Exela Technologies, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weaknesses, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, stockholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated June 8, 2020 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

- The Company did not design, implement, and operate effective process-level control activities related to order-to-cash (including revenue, customer deposits, accounts receivable, deferred revenue, and cost to obtain a contract), procure-to-pay (including operating expenses, accounts payable, and accrued liabilities), hire-to-pay (including compensation expense and accrued liabilities), leases (including accounting for the adoption of the new lease standard, right-of-use asset, and lease liability), goodwill, restricted cash, share based compensation, journal entries and preparation of the consolidated financial statements, and other financial reporting processes, as well as accounting for significant unusual transactions.
- The Company did not design, implement, and operate effective process-level control activities related to the approval, authorization, and disclosure of related party transactions.
- The Company did not design, implement, and operate effective general information technology controls (GITCs) over user and privileged access to information technology (IT) systems at multiple components in order to adequately restrict access to appropriate finance and IT personnel and enforce appropriate segregation of duties. As a result, process-level automated control activities and manual control activities that are dependent upon information derived from IT systems were also ineffective.
- There was not sufficient oversight and governance from the Board of Directors in the design, implementation, and execution of internal control over financial reporting.
- The Company did not sufficiently establish structures, reporting lines, and appropriate authorities and responsibilities.
- The Company did not sufficiently attract, develop and retain competent resources, and hold them accountable for their internal control responsibilities.
- Financial reporting objectives were not clearly specified to enable the identification and assessment of risks, including complying with applicable accounting standards.
- The risk assessment process failed to identify and assess risks of misstatement, including fraud risks, to ensure controls were designed and implemented to respond to those risks.
- Changes that could impact the system of internal controls were not identified and assessed.
- Relevant and quality information to support the functioning of internal controls was not consistently generated or used by the Company to support the operation of internal controls.

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- Internal communication of information necessary to support the functioning of internal control was not sufficient.
- Communication with external parties on matters affecting the functioning of internal control was not complete.
- The Company did not sufficiently select, develop, and perform ongoing evaluations to determine the components of internal control are present and functioning.
- The evaluation and communication of internal control deficiencies, including monitoring corrective actions, were not performed in a timely manner.

The material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

*Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Detroit, Michigan  
June 8, 2020

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**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**For the years ended December 31, 2019 and 2018**  
**(in thousands of United States dollars except share and per share amounts)**

	December 31,	
	2019	2018 (As Restated)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 6,198	\$ 36,206
Restricted cash	7,901	7,648
Accounts receivable, net of allowance for doubtful accounts of \$4,975 and \$4,359, respectively	261,400	270,812
Related party receivables	716	—
Inventories, net	19,047	16,220
Prepaid expenses and other current assets	23,663	24,937
<b>Total current assets</b>	<b>318,925</b>	<b>355,823</b>
Property, plant and equipment, net of accumulated depreciation of \$176,995 and \$154,060, respectively	113,637	132,986
Operating lease right-of-use assets, net	93,627	—
Goodwill	359,771	708,258
Intangible assets, net	342,443	395,020
Deferred income tax assets	12,032	16,345
Other noncurrent assets	17,889	19,391
<b>Total assets</b>	<b>\$ 1,258,324</b>	<b>\$ 1,627,823</b>
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
<b>Liabilities</b>		
Current liabilities		
Accounts payables	\$ 86,167	\$ 99,853
Related party payables	1,740	15,363
Income tax payable	352	1,996
Accrued liabilities	121,553	107,355
Accrued compensation and benefits	48,574	52,211
Accrued interest	48,769	49,071
Customer deposits	27,765	34,235
Deferred revenue	16,282	16,504
Obligation for claim payment	39,156	56,002
Current portion of finance lease liabilities	13,788	17,498
Current portion of operating lease liabilities	25,345	—
Current portion of long-term debts	36,490	29,237
<b>Total current liabilities</b>	<b>465,981</b>	<b>479,325</b>
Long-term debt, net of current maturities	1,398,385	1,306,423
Finance lease liabilities, net of current portion	20,272	26,738
Pension liabilities	25,681	27,641
Deferred income tax liabilities	7,996	11,214
Long-term income tax liabilities	2,806	3,024
Operating lease liabilities, net of current portion	73,282	—
Other long-term liabilities	6,962	14,717
<b>Total liabilities</b>	<b>2,001,365</b>	<b>1,869,082</b>
Commitments and Contingencies (Note 14)		
<b>Stockholders' equity (deficit)</b>		
Common stock, par value of \$0.0001 per share; 1,600,000,000 shares authorized; 153,638,836 shares issued and 150,851,689 shares outstanding at December 31, 2019 and 152,692,140 shares issued and 150,142,955 shares outstanding at December 31, 2018 (including in each case the 4,570,734 shares returned to the Company in the first quarter of 2020 in connection with the Appraisal Action)	15	15
Preferred stock, par value of \$0.0001 per share; 20,000,000 shares authorized; 4,294,233 shares issued and outstanding at December 31, 2019 and 4,569,233 shares issued and outstanding at December 31, 2018	1	1
Additional paid in capital	445,452	445,452
Less: Common Stock held in treasury, at cost; 2,787,147 shares at December 31, 2019 and 2,549,185 shares December 31, 2018	(10,949)	(10,342)
Equity-based compensation	49,336	41,731
Accumulated deficit	(1,211,508)	(702,392)
Accumulated other comprehensive loss:		
Foreign currency translation adjustment	(7,329)	(6,423)
Unrealized pension actuarial losses, net of tax	(8,059)	(9,301)
Total accumulated other comprehensive loss	(15,388)	(15,724)
<b>Total stockholders' deficit</b>	<b>(743,041)</b>	<b>(241,259)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 1,258,324</b>	<b>\$ 1,627,823</b>

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

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**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
**For the years ended December 31, 2019, 2018 and 2017**  
**(in thousands of United States dollars except share and per share amounts)**

	Years ended December 31,		
	2019	2018 (As Restated)	2017 (As Restated)
	\$	\$	\$
Revenue	\$ 1,562,337	\$ 1,586,222	\$ 1,145,891
Cost of revenue (exclusive of depreciation and amortization)	1,224,735	1,213,403	827,544
Selling, general and administrative expenses (exclusive of depreciation and amortization)	198,864	184,908	220,955
Depreciation and amortization	100,903	138,077	98,890
Impairment of goodwill and other intangible assets	349,557	48,127	69,437
Related party expense	9,501	12,403	33,431
<b>Operating loss</b>	<b>(321,223)</b>	<b>(10,696)</b>	<b>(104,366)</b>
<b>Other expense (income), net:</b>			
Interest expense, net	163,449	155,991	129,676
Debt modification and extinguishment costs	1,404	1,067	35,512
Sundry expense (income), net	969	(3,271)	2,295
Other expense (income), net	14,429	(3,030)	(1,297)
<b>Net loss before income taxes</b>	<b>(501,474)</b>	<b>(161,453)</b>	<b>(270,552)</b>
Income tax (expense) benefit	(7,642)	(8,353)	61,068
<b>Net loss</b>	<b>\$ (509,116)</b>	<b>\$ (169,806)</b>	<b>\$ (209,484)</b>
Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature	—	—	(16,375)
Cumulative dividends for Series A Preferred Stock	(3,309)	(3,655)	(2,489)
<b>Net loss attributable to common stockholders</b>	<b>\$ (512,425)</b>	<b>\$ (173,461)</b>	<b>\$ (228,348)</b>
<b>Loss per share:</b>			
Basic and diluted	\$ (3.52)	\$ (1.17)	\$ (2.18)

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

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Loss**  
**For the years ended December 31, 2019, 2018 and 2017**  
**(in thousands of United States dollars)**

	Years ended December 31,		
	2019	2018 (As Restated)	2017 (As Restated)
<b>Net loss</b>	<b>\$ (509,116)</b>	<b>\$ (169,806)</b>	<b>\$ (209,484)</b>
<b>Other comprehensive income (loss), net of tax</b>			
Foreign currency translation adjustments	(906)	(6,204)	3,328
Unrealized pension actuarial gains (losses), net of tax	1,242	1,753	1,285
<b>Total other comprehensive loss, net of tax</b>	<b>\$ (508,780)</b>	<b>\$ (174,257)</b>	<b>\$ (204,871)</b>

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

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**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Deficit**  
**December 31, 2017**  
(in thousands of United States dollars except share and per share amounts)

	<u>Common Stock</u>	<u>Preferred Stock</u>	<u>Treasury Stock</u>	<u>Additional Paid in Capital</u>	<u>Equity-Based Compensation</u>	<u>Accumulated Translation Adjustment</u>	<u>Other Comprehensive Loss</u>	<u>Unrealized Foreign Currency</u>	<u>Pension Actuarial</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders Deficit</u>	
Balances at January 1, 2017	64,024,557	\$ 6	—	\$ —	\$ (57,395)	\$ 27,342	\$ (3,547)	\$ (12,339)	\$ (293,968)	\$ (339,901)		
Net loss January 1 to December 31, 2017, as restated	—	—	—	—	—	—	—	—	—	(209,484)	(209,484)	
Equity-based compensation	—	—	—	—	—	—	6,743	—	—	—	6,743	
Foreign currency translation adjustment, as restated	—	—	—	—	—	—	3,328	—	—	—	3,328	
Net realized pension actuarial gains, net of tax	—	—	—	—	—	—	—	—	1,285	—	1,285	
Merger recapitalization	16,575,443	2	—	—	—	20,546	—	—	—	—	20,548	
Shares issued to acquire Novitex	30,600,000	3	—	—	—	244,797	—	—	—	—	244,800	
Issuance/Conversion of Quinpario shares	12,093,331	1	—	—	—	22,358	—	—	—	—	22,359	
Sale of Common Stock at July 12, 2017	18,757,942	3	—	—	—	130,860	—	—	—	—	130,863	
Issuance of Series A Preferred Stock	—	—	9,194,233	1	—	73,553	—	—	—	—	73,554	
Shares issued for advisory services and underwriting fees	3,609,375	—	—	—	—	28,573	—	—	—	—	28,573	
Conversion of Series A Preferred Stock to Common Stock	3,667,803	—	(3,000,000)	—	—	—	—	—	—	—	—	
Shares issued for HandsOn Global Management contract termination fee	1,250,000	—	—	—	—	10,000	—	—	—	—	10,000	
Equity issuance expenses	—	—	—	—	—	(7,649)	—	—	—	—	(7,649)	
Adjustment for beneficial conversion feature of Series A Preferred Stock (refer to Note 2)	—	—	—	—	—	16,375	—	—	—	(16,375)	—	
Accrual for appraisal action liability, as restated	—	—	—	—	—	(36,566)	—	—	—	—	(36,566)	
Treasury stock purchases	(49,300)	—	—	49,300	(249)	—	—	—	—	—	(249)	
Balances at December 31, 2017, as restated	<u>150,529,151</u>	<u>\$ 15</u>	<u>6,194,233</u>	<u>\$ 1</u>	<u>49,300</u>	<u>\$ (249)</u>	<u>\$ 445,452</u>	<u>\$ 34,085</u>	<u>\$ (219)</u>	<u>\$ (11,054)</u>	<u>\$ (519,827)</u>	<u>\$ (51,796)</u>

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

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Deficit**  
**December 31, 2018**  
(in thousands of United States dollars except share and per share amounts)

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid in Capital	Equity-Based Compensation	Accumulated Other Comprehensive Loss Unrealized Foreign Currency Translation Adjustment	Pension Actuarial Losses, net of tax	Accumulated Deficit	Total Stockholders' Deficit
											Accumulated Deficit	Total Stockholders' Deficit
Balances at January 1, 2018, as restated	150,529,151	\$ 15	6,194,233	\$ 1	49,300	\$ (249)	\$ 445,452	\$ 34,085	\$ (219)	\$ (11,054)	\$ (519,827)	\$ (51,796)
Implementation of ASU 2014-09 (Note 2), as restated	—	—	—	—	—	—	—	—	—	—	(12,759)	(12,759)
Net loss January 1 to December 31, 2018, as restated	—	—	—	—	—	—	—	—	—	—	(169,806)	(169,806)
Equity-based compensation	—	—	—	—	—	—	—	6,562	—	—	—	6,562
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(6,204)	—	—	(6,204)
Net realized pension actuarial gains, net of tax	—	—	—	—	—	—	—	—	—	1,753	—	1,753
RSU's exercised	126,922	—	—	—	—	—	—	256	—	—	—	256
Stock option expense	—	—	—	—	—	—	—	828	—	—	—	828
Preferred shares converted to common	1,986,767	—	(1,625,000)	—	—	—	—	—	—	—	—	—
Shares repurchased	(2,499,885)	—	—	—	2,499,885	(10,093)	—	—	—	—	—	(10,093)
Balances at December 31, 2018, as restated	<u>150,142,955</u>	<u>\$ 15</u>	<u>4,569,233</u>	<u>\$ 1</u>	<u>2,549,185</u>	<u>\$ (10,342)</u>	<u>\$ 445,452</u>	<u>\$ 41,731</u>	<u>\$ (6,423)</u>	<u>\$ (9,301)</u>	<u>\$ (702,392)</u>	<u>\$ (241,259)</u>

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

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Deficit**  
**December 31, 2019**  
(in thousands of United States dollars except share and per share amounts)

	<u>Common Stock</u>	<u>Preferred Stock</u>	<u>Treasury Stock</u>	<u>Additional Paid in Capital</u>	<u>Equity-Based Compensation</u>	<u>Foreign Currency Translation Adjustment</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Unrealized Pension Actuarial Losses, net of tax</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Deficit</u>		
Balances at January 1, 2019, as restated	150,142,955	\$ 15	4,569,233	\$ 1	2,549,185	\$ (10,342)	\$ 445,452	\$ 41,731	\$ (6,423)	\$ (9,301)	\$ (702,392)	\$ (241,259)
Net loss												
January 1 to December 31, 2019	—	—	—	—	—	—	—	—	—	(509,116)	(509,116)	
Equity-based compensation	—	—	—	—	—	—	7,828	—	—	—	7,828	
Foreign currency translation adjustment	—	—	—	—	—	—	—	(906)	—	—	(906)	
Net realized pension actuarial gains, net of tax												
RSUs vested	610,482	—	—	—	—	—	—	—	1,242	—	1,242	
Withholding of employee taxes on vested RSUs	—	—	—	—	—	—	(223)	—	—	—	(223)	
Shares repurchased	(237,962)	—	—	—	237,962	(607)	—	—	—	—	(607)	
Preferred shares converted to common	336,214	—	(275,000)	—	—	—	—	—	—	—	—	
Balances at December 31, 2019	<u>150,851,689</u>	<u>\$ 15</u>	<u>4,294,233</u>	<u>\$ 1</u>	<u>2,787,147</u>	<u>\$ (10,949)</u>	<u>\$ 445,452</u>	<u>\$ 49,336</u>	<u>\$ (7,329)</u>	<u>\$ (8,059)</u>	<u>\$ (1,211,508)</u>	<u>\$ (743,041)</u>

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

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**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2019, 2018 and 2017**  
(in thousands of United States dollars unless otherwise stated)

	Years ended December 31,		
	2018		
	2019	(As Restated)	2017
<b>Cash flows from operating activities</b>			
Net loss	\$ (509,116)	\$ (169,806)	\$ (209,484)
Adjustments to reconcile net loss			
Depreciation and amortization	100,903	138,077	98,890
Fees paid in stock	—	—	28,573
HGM contract termination fee paid in stock	—	—	10,000
Original issue discount and debt issuance cost amortization	11,777	10,913	12,280
Debt modification and extinguishment costs	1,049	103	34,459
Impairment of goodwill and other intangible assets	349,557	48,127	69,437
Provision for doubtful accounts	4,304	2,767	500
Deferred income tax provision	1,093	3,220	(67,545)
Share-based compensation expense	7,827	7,647	6,743
Foreign currency remeasurement	(511)	(1,180)	1,382
Loss (gain) on sale of assets	556	2,687	556
Fair value adjustment for interest rate swap	4,337	(2,540)	(1,297)
Change in operating assets and liabilities, net of effect from acquisitions			
Accounts receivable	4,410	(19,319)	(4,832)
Prepaid expenses and other assets	(4,825)	(2,820)	1,029
Accounts payable and accrued liabilities	(19,588)	8,815	77,171
Related party payables	(14,339)	918	4,907
Additions to outsource contract costs	(1,285)	(4,009)	(10,992)
<b>Net cash provided by (used in) operating activities</b>	<b>(63,851)</b>	<b>23,600</b>	<b>51,777</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(14,360)	(20,072)	(14,440)
Additions to internally developed software	(6,182)	(7,438)	(7,843)
Cash acquired in Quinpario reverse merger	—	—	91
Cash paid in acquisition, net of cash received	(5,000)	(34,810)	(423,797)
Proceeds from sale of assets	360	3,568	4,607
<b>Net cash provided by (used in) investing activities</b>	<b>(25,182)</b>	<b>(58,752)</b>	<b>(441,382)</b>
<b>Cash flows from financing activities</b>			
Change in bank overdraft	—	—	(210)
Proceeds from issuance of stock	—	—	204,417
Cash received from Quinpario	—	—	22,333
Repurchases of Common Stock	(3,480)	(7,221)	(249)
Contribution from Shareholders	—	—	20,548
Cash paid for equity issuance costs	—	(7,500)	(149)
Net borrowings under factoring arrangement	3,307	—	—
Cash paid for withholding taxes on vested RSUs	(223)	—	—
Lease terminations	(318)	(592)	(157)
Retirement of previous credit facilities	—	—	(1,055,736)
Cash paid for debt issuance costs	(7)	(130)	(38,784)
Principal payments on finance lease obligations	(20,465)	(16,068)	(11,361)
Borrowings from senior secured revolving facility	206,500	30,000	72,600
Repayments on senior secured revolving facility	(141,500)	(30,000)	(72,500)
Proceeds from issuance of notes	—	—	977,500
Proceeds from senior secured term loans	29,850	30,000	343,000
Borrowings from other loans	39,153	11,557	3,116
Principal repayments on senior secured term loans and other loans	(53,678)	(12,651)	(27,955)
<b>Net cash provided by (used in) financing activities</b>	<b>59,139</b>	<b>(2,605)</b>	<b>436,413</b>
Effect of exchange rates on cash	139	122	429
<b>Net decrease in cash and cash equivalents</b>	<b>(29,755)</b>	<b>(37,635)</b>	<b>47,237</b>
Cash, restricted cash, and cash equivalents			
Beginning of period	43,854	81,489	34,252
End of period	<b>\$ 14,099</b>	<b>\$ 43,854</b>	<b>\$ 81,489</b>
<b>Supplemental cash flow data:</b>			
Income tax payments, net of refunds received	\$ 7,882	\$ 7,827	\$ 5,711
Interest paid	144,456	146,076	69,622
<b>Noncash investing and financing activities:</b>			
Assets acquired through right-of-use arrangements	10,732	14,920	6,973
Leasehold improvements funded by lessor	—	1,565	146
Issuance of Common Stock as consideration for Novitex	—	—	244,800
Accrued capital expenditures	1,402	2,820	1,621
Dividend equivalent on Series A Preferred Stock	—	—	16,375
Liability assumed of Quinpario	—	—	4,698

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

## **1. Description of the Business**

### **Organization**

Exela Technologies, Inc. (the “Company” or “Exela”) is a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. The Company provides mission-critical information and transaction processing solutions services to clients across three major industry verticals: (1) Information & Transaction Processing, (2) Healthcare Solutions, and (3) Legal and Loss Prevention Services. The Company manages information and document driven business processes and offers solutions and services to fulfill specialized knowledge-based processing and consulting requirements, enabling clients to concentrate on their core competencies. Through its outsourcing solutions, the Company enables businesses to streamline their internal and external communications and workflows.

The Company was originally incorporated in Delaware on July 15, 2014 as a special purpose acquisition company under the name Quinpario Acquisition Corp 2 (“Quinpario”) for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination involving Quinpario and one or more businesses or entities. On July 12, 2017 (the “Closing”), the Company consummated its business combination with SourceHOV Holdings, Inc. (“SourceHOV”) and Novitex Holdings, Inc. (“Novitex”) pursuant to the Business Combination Agreement, dated February 21, 2017, among the Company, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., SourceHOV, Novitex, HOVS LLC, HandsOn Fund 4 I, LLC and Novitex Parent, L.P., as amended (the “Novitex Business Combination”). In connection with the Closing, the Company changed its name from Quinpario Acquisition Corp 2 to Exela Technologies, Inc. Unless the context otherwise requires, the “Company” refers to the combined company and its subsidiaries following the Novitex Business Combination, “Quinpario” refers to the Company prior to the closing of the Novitex Business Combination, “SourceHOV” refers to SourceHOV prior to the Novitex Business Combination and “Novitex” refers to Novitex prior to the Novitex Business Combination.

## **2. Basis of Presentation and Summary of Significant Accounting Policies**

The following is a summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements.

### **Basis of Presentation**

The accompanying consolidated financial statements and related notes to the consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”).

The Novitex Business Combination has been accounted for as a reverse merger in accordance with U.S. GAAP. For accounting purposes, SourceHOV was deemed to be the accounting acquirer, Quinpario was the legal acquirer, and Novitex is considered the acquired company. In conjunction with the Novitex Business Combination, outstanding shares of SourceHOV were converted into the right to receive Common Stock of the Company, par value \$0.0001 per share, shown as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. Quinpario’s assets and liabilities, which include net cash from the trust of \$27.0 million and accrued fees payable of \$4.8 million, and results of operations are consolidated with SourceHOV beginning on the Closing. The shares and corresponding capital amounts and earnings per share available to holders of the Company’s Common Stock, prior to the Novitex Business Combination, have been retroactively restated as shares reflecting the exchange ratio established in the Novitex Business Combination. The presented financial information for the year ended December 31, 2017 includes the financial information and activities for SourceHOV for the period January 1, 2017 to December 31, 2017 (365 days) as well as the financial information and activities of Novitex for the period July 13, 2017 to December 31, 2017 (172 days).

## Principles of Consolidation

The accompanying consolidated financial statements and related notes to the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810-10, Consolidation and whether the Company is the primary beneficiary. Consolidation is required if both of these criteria are met.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

***Company’s variable interest in Ex-Sigma:*** The HGM Group and other former SourceHOV equity holders formed Ex-Sigma LLC (the “Ex-Sigma”) and its wholly-owned subsidiary, Ex-Sigma 2 LLC (the “Ex-Sigma 2”), to hold the Exela shares to be issued to SourceHOV as merger consideration upon the closing of the Novitex Business Combination and to invest in Exela immediately prior to the closing. Ex-Sigma 2 secured additional PIPE financing in the form of a \$55.8 million loan (the “Margin Loan”) that was used to purchase additional common and preferred shares from the Company to help meet the minimum cash requirements needed to close the Novitex Business Combination. As a result of these transactions, the Company issued 84,912,500 shares of Common Stock to Ex-Sigma 2 at the closing, which represented approximately 54.9% ownership in the Company at that time and were pledged as collateral for the Margin Loan.

The Company determined that Ex-Sigma was a variable interest entity and that the Company had a variable interest in Ex-Sigma through an expense reimbursement arrangement related to the Margin Loan and contained in the Consent, Waiver and Amendment dated June 15, 2017 by and among the Company, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex, Novitex Parent, L.P., Ex-Sigma, HOVS LLC and HandsOnFund 4 I, LLC, amending the Novitex Business Combination Agreement (the “Consent, Waiver and Amendment”). The Consent, Waiver and Amendment provided among other things for the Company to reimburse Ex-Sigma for costs and fees related to the maintenance of the Margin Loan, other than payments of principal, interest and original issue discount.

The Company was not the primary beneficiary because the Company did not have the power to direct the activities that most significantly impacted the economic performance of Ex-Sigma. Accordingly, the Company did not consolidate the financial statements of Ex-Sigma and did not have any assets or liabilities related to Ex-Sigma and the Company did not have an investment in Ex-Sigma. The Company reaffirmed its assessment as of June 8, 2020.

Ex-Sigma 2 paid off the balance of the Margin Loan as of December 31, 2019, and as such the maximum exposure to loss as a result of the Company’s involvement with Ex-Sigma is \$0. Ex-Sigma 2 distributed the shares held by it during the first quarter of 2020 and is no longer a shareholder of Exela. Ex-Sigma and Ex-Sigma 2 ceased to be variable interest entities upon the distribution that occurred on February 21, 2020.

## Use of Estimates in Preparation of the Financial Statements

Estimates and judgments relied upon in preparing these consolidated financial statements include revenue recognition for multiple element arrangements, allowance for doubtful accounts, income taxes, depreciation, amortization, employee benefits, equity-based compensation, contingencies, goodwill, intangible assets, right of use assets and obligation, pension obligations, pension assets, fair value of assets and liabilities acquired in acquisitions, and asset and liability valuations. The Company regularly assesses these estimates and records changes in estimates in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that the Company believes to be reasonable under the circumstances. Actual results could differ from those estimates.

## Going Concern

Under ASC Subtopic 205-40, Presentation of Financial Statements—Going Concern (“ASC 205-40”), the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its future financial obligations as they become due within one year after the date that the financial statements are issued. As required under ASC 205-40, management’s evaluation should initially not take into consideration the potential mitigating effects of management’s plans that have not been fully implemented as of the date the financial statements are issued. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

### *Substantial Doubt Raised*

In performing the first step of the evaluation, we concluded that the following conditions raised substantial doubt about our ability to continue as a going concern:

- history of net losses of \$509.1 million and \$169.8 million for the years ended December 31, 2019 and December 31, 2018, respectively, including goodwill and other intangible asset impairment of \$349.6 million, for the year ended December 31, 2019 and \$48.1 million for the year ended December 31, 2018;
- net operating cash outflow of \$63.9 million in 2019 and inflow of \$23.6 million in 2018;
- working capital deficits of \$147.1 million as of December 31, 2019 and \$123.5 million as of December 31, 2018;
- significant cash payments for interest on our long-term debt of \$144.5 million in 2019 and a similar amount expected in 2020;
- a liability incurred of \$56.4 million for Appraisal Action (as described further in Note 14);
- a requirement that the Company maintain a minimum of \$40.0 million and \$35.0 million in liquidity, at all times, to not be considered in default of the A/R Facility and the Credit Agreement (as defined below); and
- an accumulated deficit of \$1,211.5 million.

Furthermore, under the terms of each of the First Lien Credit Agreement, dated as of July 12, 2017, as amended and restated as of July 13, 2018 and as further amended and restated as of April 16, 2019 (the “Credit Agreement”), and the Indenture and First Supplemental Indenture (collectively, the “Indenture”), dated July 12, 2017, the Company was required to deliver to lender the December 31, 2019 audited financial statements by April 14, 2020, which the Company failed to do. Such failure was an event of default under the Credit Agreement if not cured within 30 days of receiving a notice of default. The Company received such notice on April 15, 2020. Additionally, under the terms of the A/R Facility (as described in Note 21), the Company was required to furnish to each lender the December 31, 2019 audited financial statements by May 11, 2020, which the Company failed to do. In May 2020, both the Credit Agreement and the A/R Facility were amended. Refer to Consideration of Management’s Plans section below.

### *Consideration of Management’s Plans*

In performing the second step of this assessment, we are required to evaluate whether it is probable that our plans will be effectively implemented within one year after the financial statements are issued and whether it is probable those plans will alleviate the substantial doubt about our ability to continue as a going concern.

As of June 5, 2020, the Company had \$94.1 million in available cash and an additional source of liquidity of \$13.4 million from the borrowing facilities.

The Company has undertaken the following plans to improve our available cash balances, liquidity and cash flows generated from operations, over the twelve-month period from the date the financial statements are issued, as follows:

- On January 10, 2020, certain subsidiaries of the Company entered into a \$160.0 million A/R Facility with a five-year term. The Company used the proceeds of the initial borrowings to repay outstanding revolving

borrowings under the Company's senior credit facility and to provide additional liquidity and funding for the ongoing business needs of the Company and its subsidiaries. As of June 8, 2020, the Company has fully drawn on the remaining availability under the A/R Facility. Additionally, the A/R Facility agreement includes a requirement that the Company maintain a minimum of \$40.0 million in liquidity, at all times, to not be considered in default.

- On March 16, 2020, the Company and its indirect wholly owned subsidiaries, Merco Holdings, LLC and SourceHOV Tax, LLC entered into a Membership Interest Purchase Agreement with Gainline Source Intermediate Holdings LLC at which time Gainline Source Intermediate Holdings LLC acquired all of the outstanding membership interests of SourceHov Tax for \$40.0 million, subject to adjustment as set forth in the purchase agreement of approximately \$2.0 million.
- On March 23, 2020, in response to the potential impact of the COVID-19 pandemic, the Company implemented a temporary freeze on increases to base salaries and wages unless where contractually mandated. Additionally, in connection with the incentive program administered by the Company for hourly, non-exempt employees, a new maximum was put in place to limit the amount of incentives that could be earned in any given two (2) week pay period. Although the Company expects these to be short-term actions, it expects these actions will result in a cash savings to the Company of approximately \$23.4 million on an annual basis.
- On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The refundable payroll tax credits and deferment of employer side social security payments provisions of the CARES Act will benefit Company's liquidity by approximately \$29.0 million.
- On May 18, 2020, the Company amended the Credit Agreement to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. Further, pursuant to the amendment, the borrower under the Credit Agreement is also required to maintain a minimum liquidity of \$35.0 million. Refer to Note 11 - *Long-Term Debt and Credit Facilities for additional discussion*.
- On May 21, 2020, the Company also amended the A/R Facility to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. Refer to Note 21 – *Subsequent Events for additional discussion*.

#### *Management Assessment of Ability to Continue as a Going Concern*

The Company has a history of negative trends in its financial condition and operating results as well as recent noncompliance with covenants with its respective lenders. However, despite these conditions, the Company believes management's plans, as described fully above, will provide sufficient liquidity to meet its financial obligations and further, maintain levels of liquidity as specifically required under the Credit Agreement and the A/R Facility. Therefore, management concluded these plans alleviate the substantial doubt that was raised about our ability to continue as a going concern for at least twelve months from the date that the financial statements were issued.

#### *Future Plans and Considerations*

Our plans to further enhance liquidity, which were not considered for the purposes of our assessment of whether substantial doubt is alleviated, include the potential sale of certain non-core assets that are not central to the Company's long-term strategic vision, and any potential action with respect to these operations would be intended to allow the Company to better focus on its core businesses. The Company has retained financial advisors to assist with the sale of select assets. The Company expects to use the potential net proceeds from this initiative for the paydown of debt.

Our plans are subject to inherent risks and uncertainties, which become significantly magnified when the effects of the current pandemic and related financial crisis are included in the assessment. Accordingly, there can be no assurance that our plans can be effectively implemented and, therefore, that the conditions can be effectively mitigated.

## **Segment Reporting**

The Company consists of the following three segments:

1. *Information & Transaction Processing Solutions (“ITPS”)*. ITPS provides industry-specific solutions for banking and financial services, including lending solutions for mortgages and auto loans, and banking solutions for clearing, anti-money laundering, sanctions, and interbank cross-border settlement; property and casualty insurance solutions for origination, enrollments, claims processing, and benefits administration communications; public sector solutions for income tax processing, benefits administration, and record management; multi-industry solutions for payment processing and reconciliation, integrated receivables and payables management, document logistics and location services, records management and electronic storage of data, documents; and software, hardware, professional services and maintenance related to information and transaction processing automation, among others.

2. *Healthcare Solutions (“HS”)*. HS offerings include revenue cycle solutions, integrated accounts payable and accounts receivable, and information management for both the healthcare payer and provider markets. Payer service offerings include claims processing, claims adjudication and auditing services, enrollment processing and policy management, and scheduling and prescription management. Provider service offerings include medical coding and insurance claim generation, underpayment audit and recovery, and medical records management.

3. *Legal and Loss Prevention Services (“LLPS”)*. LLPS solutions include processing of legal claims for class action and mass action settlement administrations, involving project management support, notification and outreach to claimants, collection, analysis and distribution of settlement funds. Additionally, LLPS provides data and analytical services in the context of litigation consulting, economic and statistical analysis, expert witness services, and revenue recovery services for delinquent accounts receivable.

## **Cash and Cash Equivalents**

Cash and cash equivalents include cash deposited with financial institutions and liquid investments with original maturity dates equal to or less than three months. All bank deposits and money market accounts are considered cash and cash equivalents. The Company holds cash and cash equivalents at major financial institutions, which often exceed Federal Deposit Insurance Corporation insured limits. Historically, the Company has not experienced any losses due to bank depository concentration.

Certificates of deposit and fixed deposits whose original maturity is greater than three months and one year or less are classified as short-term investments, and certificates of deposit and fixed deposits whose maturity is greater than one year at the balance sheet date are classified as non-current assets in the consolidated balance sheets. The purchase of any certificates of deposit or fixed deposits that are classified as short-term investments or non-current assets appear in the investing section of the consolidated statements of cash flows.

## **Restricted Cash**

As part of the Company's legal claims processing service, the Company holds cash for various settlement funds once the fund is in the wind down stage and claims have been paid. The cash is used to pay tax obligations and other liabilities of the settlement funds. The Company has recorded a liability for the settlement funds received, which is included in Obligation for claim payment in the consolidated balance sheets, of \$39.1 million and \$56.0 million at December 31, 2019 and 2018, respectively.

## **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are carried at the original invoice amount less an estimate made for doubtful accounts. Revenue that has been earned but remains unbilled at the end of the period is recorded as a component of accounts receivable, net. The Company specifically analyzes accounts receivable and historical bad debts, customer credit-worthiness, current economic trends, and changes in customer payment terms and collection trends when evaluating the adequacy of its allowance for doubtful accounts. The Company writes off accounts receivable balances against the allowance for doubtful accounts, net of any amounts recorded in deferred revenue, when it becomes probable that the receivable will not be collected.

## **Inventories**

Inventories are valued at the lower of cost and net realizable value method and include the cost of raw materials, labor, and purchased subassemblies. Cost is determined using the weighted average method. Net inventories as of December 31, 2019 and 2018 were \$19.0 million and \$16.2 million, respectively.

## **Property, Plant and Equipment**

Property, plant, and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method (which approximates the use of the assets) over the estimated useful lives of the assets. When these assets are sold or otherwise disposed of, the asset and related depreciation is relieved, and any gain or loss is included in the consolidated statements of operations for the period of sale or disposal. Leasehold improvements are amortized over the lease term or the useful life of the asset, whichever is shorter. Repair and maintenance costs are expensed as incurred.

## **Intangible Assets**

### *Customer Relationships*

Customer relationship intangible assets represent customer contracts and relationships obtained as part of acquired businesses. Customer relationship values are estimated by evaluating various factors including historical attrition rates, contractual provisions and customer growth rates, among others. The estimated average useful lives of customer relationships range from 4 to 16 years depending on facts and circumstances. These intangible assets are primarily amortized based on undiscounted cash flows. The Company evaluates the remaining useful life of intangible assets on an annual basis to determine whether events and circumstances warrant a revision to the remaining useful life.

### *Trade Names*

The Company has determined that its trade name intangible assets are indefinite-lived assets and therefore are not subject to amortization. Trade names are tested for impairment as per the Company's policy for impairment of indefinite-lived assets.

### *Trademarks*

The Company has determined that its trademark intangible assets resulting from acquisitions are definite-lived assets and therefore are subject to amortization. The Company amortizes such trademarks on a straight-line basis over the estimated useful life, which is typically one year.

### *Developed Technology*

The Company has acquired various developed technologies embedded in its technology platform. Developed technology is an integral asset to the Company in providing solutions to customers and is recorded as an intangible asset. The Company amortizes developed technology on a straight-line basis over the estimated useful life, which is typically 5 to 8.5 years.

### *Capitalized Software Costs*

The Company capitalizes certain costs incurred to develop software products to be sold, leased or otherwise marketed after establishing technological feasibility in accordance with ASC section 985-20, *Software—Costs of Software to Be Sold, Leased, or Marketed*, and the Company capitalizes costs to develop or purchase internal-use software in accordance with ASC section 350-40, *Intangibles—Goodwill and Other—Internal-Use Software*. Significant estimates and assumptions include determining the appropriate period over which to amortize the capitalized costs based on estimated useful lives and estimating the marketability of the commercial software products and related future revenues. The Company amortizes capitalized software costs on a straight-line basis over the estimated useful life, which is typically 3 to 5 years.

### *Outsourced Contract Costs*

Costs of outsourcing contracts, including costs incurred for bid and proposal activities, are generally expensed as incurred. However, certain costs incurred upon initiation of an outsourcing contract are deferred and expensed on a straight-line basis over the estimated contract term. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or fulfillment activities and can be separated into two principal categories: contract commissions and set-up/fulfillment costs. Contract fulfillment costs are capitalized only if they are directly attributable to a specifically anticipated future contract; represent the enhancement of resources that will be used in satisfying a future performance obligation (the services under the anticipated contract); and are expected to be recovered.

### *Non-compete Agreements*

The Company acquired certain non-compete agreements in connection with the Novitex Business Combination. These were related to four Novitex executives that were terminated following the acquisition. As of December 31, 2019 these agreements were fully amortized.

### *Assembled Workforce*

The Company acquired an assembled workforce in an asset purchase transaction in the fourth quarter of 2018. The Company recognized an intangible asset for the acquired assembled workforce and amortizes the asset on a straight-line basis over the estimated useful life of four years.

### **Impairment of Indefinite-Lived Assets**

The Company conducts its annual indefinite-lived assets impairment tests on October 1st of each year for its indefinite-lived assets, or more frequently if indicators of impairment exist. When performing the impairment test, the Company has the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. A quantitative assessment requires comparison of fair value of the asset to its carrying value. If carrying value of the indefinite-lived assets exceeds fair value, the Company recognizes an impairment loss by an amount which is equal to the excess of carrying value over fair value. The Company utilizes the Income Approach, specifically the Relief-from-Royalty method, which has the basic tenet that a user of that intangible asset would have to make a stream of payments to the owner of the asset in return for the rights to use that asset. Refer to Note 9- *Intangible Assets and Goodwill* for additional discussion of impairment of trade names.

### **Impairment of Long-Lived Assets**

The Company reviews the recoverability of its long-lived assets, including finite-lived trade names, trademarks, customer relationships, developed technology, capitalized software costs, outsourced contract costs, acquired software, workforce, and property, plant and equipment, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is

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recognized for the difference between estimated fair value and carrying value. The primary measure of fair value is based on discounted cash flows based in part on the financial results and the expectation of future performance.

The Company did not record any material impairment related to its property, plant, and equipment, customer relationships, trademarks, developed technology, capitalized software, or outsourced contract costs for the years ended December 31, 2019, 2018, and 2017.

### **Goodwill**

Goodwill represents the excess purchase price over tangible and intangible assets acquired less liabilities assumed arising from business combinations. Goodwill is generally allocated to reporting units based upon relative fair value (taking into consideration other factors such as synergies) when an acquired business is integrated into multiple reporting units. The Company's reporting units are at the operating segment level, which discrete financial information is prepared and regularly reviewed by management. When a business within a reporting unit is disposed of, goodwill is allocated to the disposed business using the relative fair value method.

The Company conducts its annual goodwill impairment tests on October 1st of each year, or more frequently if indicators of impairment exist. When performing the annual impairment test, the Company has the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. If a qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company would be required to perform a quantitative impairment analysis for goodwill. The quantitative analysis requires a comparison of fair value of the reporting unit to its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. 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. *Refer to Note 9- Intangible Assets and Goodwill* for additional discussion of impairment of goodwill.

### **Derivative Instruments and Hedging Activities**

As required by ASC 815—*Derivatives and Hedging*, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company's objective in using interest rate derivatives is to manage its exposure to variable interest rates related to its term loan under the Credit Agreement. In order to accomplish this objective, in November 2017, the Company entered into a three year, one-month LIBOR interest rate contract with a notional amount of \$347.8 million. The contract will mitigate the variable interest rate risk related to the LIBOR with a fixed interest rate paid semi-annually starting January 12, 2018.

The following table summarizes the Company's interest rate swap positions as of December 31, 2019:

Effective date	Maturity date	December 31, 2019	
		(In Millions) Notional Amount	Weighted Average Interest Rate
1/12/2018	1/12/2021	\$ 328.1	1.9275 %

The interest rate swap, which is used to manage the Company's exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, the change in the fair value of the derivative is recorded directly

in other income (expense), net. Other income (expense), net includes a loss of \$4.3 million and a gain of \$2.5 million related to the change in fair value of the interest rate swap for the years ended December 31, 2019 and 2018, respectively.

### **Benefit Plan Accruals**

The Company has defined benefit plans in the U.K and Germany, under which participants earn a retirement benefit based upon a formula set forth in the respective plans. The Company records annual amounts relating to its pension plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, and compensation increases. The Company reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so.

### **Leases**

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 consolidated balance sheet. Finance leases are included in property, plant and equipment, current portion of finance lease liabilities and finance lease liabilities, net of current portion in the Company's consolidated balance sheet.

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. We use the implicit rate when readily determinable. 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 not recorded on the balance sheet.

Finance lease ROU assets are amortized over the lease term or the useful life of the asset, whichever is shorter. The amortization of finance lease ROU assets is recorded in depreciation expense in the consolidated statements of operations. For operating leases, we recognize expense for lease payments on a straight-line basis over the lease term.

### **Stock-Based Compensation**

The Company accounts for all equity-classified awards under stock-based compensation plans at their "fair value." This fair value is measured at the fair value of the awards at the grant date and recognized as compensation expense on a straight-line basis over the vesting period. The fair value of the awards on the grant date is determined using the stock price on the respective grant date in the case of restricted stock units and using an option pricing model in the case of stock options. The expense resulting from share-based payments is recorded in Selling, general and administrative expense in the accompanying consolidated statements of operations.

### **Revenue Recognition**

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

### 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 years ended December 31, 2019, 2018, and 2017:

	Years Ended December 31,											
	2019				2018 (As Restated)				2017 (As Restated)			
	ITPS	HS	LLPS	Total	ITPS	HS	LLPS	Total	ITPS	HS	LLPS	Total
U.S.A.	\$ 958,625	\$ 256,721	\$ 71,332	\$ 1,286,678	\$ 1,034,941	\$ 228,015	\$ 84,560	\$ 1,347,516	\$ 675,613	\$ 233,595	\$ 91,619	\$ 1,000,827
EMEA	248,466	—	—	248,466	211,314	—	—	211,314	130,098	—	—	130,098
Other	27,193	—	—	27,193	27,392	—	—	27,392	14,966	—	—	14,966
Total	<b>\$1,234,284</b>	<b>\$256,721</b>	<b>\$71,332</b>	<b>\$1,562,337</b>	<b>\$1,273,647</b>	<b>\$228,015</b>	<b>\$84,560</b>	<b>\$1,586,222</b>	<b>\$820,677</b>	<b>\$233,595</b>	<b>\$91,619</b>	<b>\$1,145,891</b>

### Contract Balances

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

	December 31, 2019	December 31, 2018 (As Restated)
Accounts receivable, net	\$ 261,400	\$ 270,812
Deferred revenues	16,621	16,940
Customer deposits	27,765	34,235
Costs to obtain and fulfill a contract	4,977	6,623

Accounts receivable, net includes \$34.1 million and \$39.5 million as of December 31, 2019 and 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 \$14.4 million during the year ended December 31, 2019 that had been deferred as of December 31, 2018.

Costs incurred to obtain and fulfill contracts are deferred and presented as part of intangible assets, net and expensed on a straight-line basis over the estimated benefit period. We recognized \$2.9 million and \$3.1 million of amortization for these costs in 2019 and 2018, respectively, 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 fulfillment and can be separated into two principal categories: contract commissions and fulfillment 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.

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Customer deposits consist primarily of amounts received from customers in advance for postage. The majority of the amounts recorded as of December 31, 2018, and received throughout 2019, were used to pay for postage with the corresponding postage revenue being recognized during the year ended December 31, 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 (a) contracts with an original expected length of one year or less, and (b) 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 December 31, 2019 in each of the future periods below:

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

2020	\$ 50,664
2021	38,586
2022	32,814
2023	27,408
2024	26,452
2025 and thereafter	27,141
Total	\$ 203,065

## **Research and Development**

Research and development costs are expensed as incurred. Research and development costs expensed for the years ended December 31, 2019, 2018, and 2017 were \$1.7 million, \$2.0 million, and \$2.3 million, respectively.

## **Advertising**

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2019, 2018, and 2017, were \$1.1 million, \$0.9 million, and \$0.7 million, respectively.

## **Income Taxes**

The Company accounts for income taxes by using the asset and liability method. The Company accounts for income taxes regarding uncertain tax positions and recognized interest and penalties related to uncertain tax positions in income tax benefit/(expense) in the consolidated statements of operations.

Deferred income taxes are recognized on the tax consequences of temporary differences by applying enacted statutory tax rates applicable in future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, as determined under tax laws and rates. A valuation allowance is provided when it is more likely than not that all or some portion of the deferred tax assets will not be realized. Due to numerous ownership changes, the Company is subject to limitations on existing net operating losses under Section 382 of the Internal Revenue Code (the “Code”). Accordingly, valuation allowances have been established against a portion of the net operating losses to reflect estimated Section 382 limitations. The Company also considered the realizability of net operating losses not limited by Section 382. The Company did not consider future book income as a source of taxable income when assessing if a portion of the deferred tax assets are more likely than not to be realized. However, scheduling the reversal of existing deferred tax liabilities indicated that a portion of the deferred tax assets are likely to be realized. Therefore, partial valuation allowances were established against a portion of the Company’s deferred tax assets. In the event the Company determines that it would be able to realize deferred tax assets that have valuation allowances established, an adjustment to the net deferred tax assets would be recognized as a component of income tax expense through continuing operations.

The Company engages in transactions (i.e. acquisitions) in which the tax consequences may be subject to uncertainty and examination by the varying taxing authorities. Therefore, judgment is required by the Company in assessing and estimating the tax consequences of these transactions. While the Company’s tax returns are prepared and based on the Company’s interpretation of tax laws and regulations, in the normal course of business the tax returns are subject to examination by the various taxing authorities. Such examinations may result in future assessments of additional tax, interest and penalties. For purposes of the Company’s income tax provision, a tax benefit is not recognized if the tax position is not more likely than not to be sustained based solely on its technical merits. Considerable judgment is involved in determining which tax positions are more likely than not to be sustained. *Refer to Note 12 - Income Taxes* for further information.

## **Loss Contingencies**

The Company reviews the status of each significant matter, if any, and assesses its potential financial exposure considering all available information including, but not limited to, the impact of negotiations, settlements, rulings, advice of legal counsel and other updated information and events pertaining to a particular matter. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. Judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to loss contingencies, accruals are based on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to its pending claims and litigation, and may revise its estimates. These revisions in the estimates of the potential liabilities could have a material impact on the results of operations and financial position of the

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Company. The Company's liabilities exclude any estimates for legal costs not yet incurred associated with handling these matters.

### **Operations**

A portion of the Company's labor and operations is situated outside of the United States in India and other locations. The carrying value of long-lived assets that are situated outside of the United States is approximately \$33.7 million and \$34.4 million as of December 31, 2019 and 2018, respectively.

### **Foreign Currency Translation**

The functional currency for the Company's production operations located in India, Philippines, China, and Mexico is the United States dollar. Included in other expense as Sundry expense (income), net in the consolidated statements of operations are net exchange gains of \$0.5 million and \$1.2 million for the years ended December 31, 2019 and 2018, respectively, and a loss of \$1.4 million for the year ended December 31, 2017.

The Company has determined all other international subsidiaries' functional currency is the local currency. These assets and liabilities are translated at exchange rates in effect at the balance sheet date while income and expense amounts are translated at average exchange rates during the period. The resulting foreign currency translation adjustments are disclosed as a separate component of other comprehensive loss.

### **Beneficial Conversion Feature**

The Company's Series A Perpetual Convertible Preferred Stock, par value \$0.0001 per share (the "Series A Preferred Stock") contains a beneficial conversion feature, which arises when a debt or equity security is issued with an embedded conversion option that is beneficial to the investor or in the money at inception because the conversion option has an effective strike price that is less than the market price of the underlying stock at the commitment date. The Company recognized the beneficial conversion feature by allocating the intrinsic value of the conversion option, which is the number of shares of Common Stock available upon conversion multiplied by the difference between the effective conversion price per share and the fair value of Common Stock per share on the commitment date, to additional paid-in capital, resulting in a discount on the Series A Preferred Stock. As a result of the occurrence of events meeting the definition of a "Fundamental Change" as defined in the Certificate of Designations, Preferences, Rights and Limitations of Series A Perpetual Convertible Preferred Stock of the Company during the period, the Company recognized the entire dividend equivalent of \$16.4 million as of December 31, 2017. There was no dividend equivalent recognized in 2018 and 2019.

### **Net Loss per Share**

Earnings per share ("EPS") is computed by dividing net loss available to holders of the Company's Common Stock by the weighted average number of shares of Common Stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, using the more dilutive of the two-class method or if-converted method in periods of earnings. The two class method is an earnings allocation method that determines earnings per share for Common Stock and participating securities. As the Company experienced net losses for the periods presented, the impact of participating 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 year ended December 31, 2019 shares of the Company's Series A Preferred Stock, if converted would have resulted in an additional 5,250,129 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 has not included the effect of 35,000,000 warrants sold in the Quinpario Initial Public Offering ("IPO") and the effect of the aggregate number of shares issuable pursuant to outstanding restricted stock units and

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options of 5,247,005, 4,463,597, and 4,590,520, respectively in the calculation of diluted loss per share for the years ended December 31, 2019, 2018 and 2017 as their effects were anti-dilutive.

The components of basic and diluted EPS are as follows:

	Year Ended December 31,		
	2019	2018 (As Restated)	2017 (As Restated)
Net loss attributable to common stockholders (A)	\$ (512,425)	\$ (173,461)	\$ (228,348)
Weighted average common shares outstanding - basic and diluted (B)	<u>145,718,936</u>	<u>147,773,089</u>	<u>104,914,382</u>
<b>Loss Per Share:</b>			
Basic and diluted (A/B)	\$ (3.52)	\$ (1.17)	\$ (2.18)

The weighted average common shares outstanding - basic and diluted, in the table above, are excluding in each case the 4,570,734 shares returned to the Company in the first quarter of 2020 in connection with the Appraisal Action (the "Appraisal Shares").

### **Business Combinations**

The Company includes the results of operations of the businesses acquired as of the respective dates of acquisition. The Company allocates the fair value of the purchase price of acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill.

### **Fair Value Measurements**

The Company records the fair value of assets and liabilities in accordance with ASC 820, *Fair Value Measurement* ("ASC 820"). ASC 820 defines fair value as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

In addition to defining fair value, ASC 820 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 — unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability at fair value.

*Refer to Note 15 — Fair Value Measurement* for further discussion.

## Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents and trade receivables. The Company maintains its cash and cash equivalents and certain other financial instruments with highly rated financial institutions and limits the amount of credit exposure with any one financial institution. From time to time, the Company assesses the credit worthiness of its customers. Credit risk on trade receivables is minimized because of the large number of entities comprising the Company's client base and their dispersion across many industries and geographic areas. The Company generally has not experienced any material losses related to receivables from any individual customer or groups of customers. The Company does not require collateral. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company's accounts receivable, net. The Company does not have any significant customers that account for 10% or more of the total consolidated revenues.

## 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 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.

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 adoption had no impact on the Company's financial position, results of operations, and cash flows for the year ended December 31, 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 year ended December 31, 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 year ended December 31, 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 year ended December 31, 2019.

Effective January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) no. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. Under ASU 2014-09, revenue is recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this standard using the modified retrospective approach applied to those contracts that were not completed as of January 1, 2018. The results for the reporting period beginning after January 1, 2018 are presented in accordance with the new standard, although historical information has not been restated and continues to be reported under the accounting standards and policies in effect for those periods. The adoption of ASC 606 had a material impact on the Company’s financial position, results of operations and cash flows as of or for the period ended December 31, 2018, primarily due to the change in contract costs capitalization criteria. However, we expect the impact of the adoption of the new standard will be immaterial to our results of operations on an ongoing basis. The cumulative effect of accounting change recognized was \$12.8 million recorded as an increase to beginning balance of accumulated deficit.

### **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 ASU is effective for the Company for fiscal years beginning after December 15, 2022, 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.

In November 2019, the FASB issued ASU no. 2019-08, *Codification Improvements — Share-Based Consideration Payable to a Customer*. This ASU clarifies the accounting for share-based payments issued as consideration payable to a customer in accordance with ASC 606. Under the ASU, entities apply the guidance in ASC 718 to measure and classify share-based payments issued to a customer that are not in exchange for a distinct good or service (i.e., share-based sales incentives). Accordingly, entities use a fair-value-based measure to calculate such incentives on the grant date, which is the date on which the grantor (the entity) and the grantee (the customer) reach a mutual understanding of the key terms and conditions of the share-based consideration. The result is reflected as a reduction of revenue in accordance with the guidance in ASC 606 on consideration payable to a customer. After initial recognition, the measurement and classification of the share-based sales incentives continue to be subject to ASC 718 unless (1) the award is subsequently modified when vested and (2) the grantee is no longer a customer. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In December 2019, the FASB issued ASU no. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU simplifies the accounting for income taxes by eliminating some exceptions to the general approach in ASC 740, *Income Taxes*, for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. The ASU adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. It also clarifies certain aspects of the existing guidance to promote more consistent application, among other things. The ASU is effective for the Company for fiscal years beginning after December 15, 2020, including interim periods therein. Early adoption is permitted. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

### **3. Restatement of Previously Issued Financial Statements**

On March 11, 2020, management in concurrence with the Audit Committee of the Board of Directors, concluded that our 2018 and 2017 consolidated financial statements, included in our Annual Reports on Form 10-K as of and for the fiscal years ended December 31, 2018 and 2017, and our unaudited consolidated financial statements as of and for each of the first three quarterly periods in 2019 and all quarterly periods in 2018, included in our Quarterly Reports on Form 10-Q for the respective periods, should no longer be relied upon due to misstatements that are described in greater detail below, and that we would restate such financial statements to make the necessary accounting corrections. Details of the restated consolidated financial statements as of and for the fiscal years ended December 31, 2018 and 2017 are provided below. In addition, details of the restated interim financial information for each of the quarterly periods in fiscal 2018 and for the first three quarters of fiscal 2019, as presented in Note 20, *Unaudited Quarterly Financial Data*.

The restatements reflect adjustments to correct errors including the Company's non-accrual of a liability related to dissenting shareholders arising out of the Novitex Business Combination, the under accrual of certain reimbursement obligations under the Consent, Waiver and Amendment, certain errors in recognition of revenues under ASC 605, incorrect classification of the loss on extinguishment of debt as cash flows from financing activities instead of cash flows from operating activities, incorrect capitalization of outsourced contracts costs and other miscellaneous adjustments. The nature and impact of these adjustments are described below and detailed in the tables below. Also see Note 20, *Unaudited Quarterly Financial Data*, for the impact of these adjustments on each of the quarterly periods.

**(a) Appraisal Action Liability Adjustments**

During the fourth quarter of fiscal 2019, the Company identified an error as a result of non-accrual of liability and interest thereon for the obligation to pay the fair market value of the shares of certain former stockholders of SourceHOV under the Appraisal Action. As previously reported, on September 21, 2017, former stockholders of SourceHOV, who owned 10,304 shares of SourceHOV common stock, filed a petition for Appraisal Action arising out of the Novitex Business Combination. In the Appraisal Action, the petitioners sought, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses. The parties and their experts offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. On January 30, 2020, the Court issued its post-trial Memorandum Opinion in the Appraisal Action, in which it found that the fair value of SourceHOV as of the Closing Date was \$4,591 per share, and on March 26, 2020, the Court issued its final order and judgment awarding the petitioners \$57,698,426 inclusive of costs and interest. Per the Court's opinion, the legal rate of interest, compounded quarterly, accrues on the per share value from the Closing Date until the date of payment to petitioners. As a result of the Appraisal Action, 4,570,734 shares of our Common Stock issued to Ex-Sigma 2, our principal stockholder at the Closing of the Novitex Business Combination, have been returned to the Company during the first quarter of 2020. Interest accrues on the value of the shares from the date of the Business Combination until the liability is paid. Until the third quarter of 2019, the Company had included a disclosure on the Appraisal Action as a part of the *Commitment and Contingencies* footnote in its consolidated financial statements but had not recorded a liability or accrued interest thereon for the obligation. After evaluating the historical accounting treatment applied to the Appraisal Action, the Company has determined that its historical accounting was in error and the obligation to pay the fair market value of the former stockholders' shares represented an obligation as of the date the Appraisal Action was submitted in September 2017. The liability should have been recorded in 2017 at the estimated fair value of the shares tendered. This error resulted in \$43.1 million, \$40.6 million and \$37.8 million understatement of accrued liabilities and commensurate understatement of total stockholders' deficit, as at September 30, 2019, December 31, 2018 and 2017, respectively. Further, this error resulted in \$2.4 million, \$2.9 million and \$1.2 million understatement of loss for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, due to the unrecorded interest expense accrual associated with the Company's obligations related to the Appraisal Action. Interest should have been accrued in the relevant periods at the rate set by the Delaware Court of Chancery. The correction of this error also reduced the number of shares outstanding by 4,570,734 shares for purposes of the weighted average outstanding common shares computation used to calculate basic and diluted loss per share during the respective periods. These are the number of shares of our Common Stock issued at the Closing of the Novitex Business Combination to Ex-Sigma 2 in respect of the former stockholders' shares subject to the Appraisal Action that were returned to the Company during the first quarter of 2020.

**(b) Outsourced Contract Cost Adjustments**

A \$5.3 million understatement of loss for the nine months ended September 30, 2019 and a \$3.2 million overstatement of loss for the year ended December 31, 2018, due to incorrect capitalization of employee training related costs during the set-up phase as costs of fulfilling contracts which should have been expensed under ASC 340-40. Additionally, an adjustment of \$15.4 million was recorded to increase accumulated deficit as of January 1, 2018 to correct the previously-recorded transition adjustment for costs of fulfilling contracts upon the adoption of ASC 606 and ASC 340-40. These errors resulted in \$17.3 million and \$12.0 million overstatement of intangible assets, net as of September 30, 2019 and December 31, 2018, respectively.

(c) Other Misstatement Adjustments

*Expense Reimbursement Adjustments:*

During the second half of 2019, we reimbursed Ex-Sigma 2 approximately \$4.5 million in total, out of that \$2.1 million of underwriting discount and commission expenses and \$0.3 million of advisory fee were incurred by Ex-Sigma 2 in a secondary offering in April 2018 and \$2.1 million of expenses related to the discount to the market price on shares sold by Ex-Sigma 2 in a secondary offering in June 2019 and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment, amending the Novitex Business Combination Agreement, dated February 21, 2017. Approximately \$2.4 million and \$2.1 million of these expenses should have been recorded in the 2018 and the second quarter of 2019, respectively. This error resulted in a \$2.1 million and \$2.4 million understatement of loss for the quarter ended June 30, 2019 and for the year ended December 31, 2018, respectively.

Further, \$1.5 million paid to Ex-Sigma 2 in July 2019 for the fees incurred in connection with the secondary offering, out of total reimbursement of \$4.5 million in the second half of 2019 as discussed above, was erroneously recorded as selling, general and administrative expenses in the third quarter of 2019. This error resulted in a \$1.5 million overstatement of loss for the third quarter of 2019.

Additionally, the Company did not record related party expense accrual associated with the Company's obligation to reimburse Ex-Sigma 2 in connection with premium payments made by Ex-Sigma 2 under the Margin Loan and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment. It resulted in a \$1.7 million and \$5.2 million understatement of loss for the nine months ended September 30, 2019 and for the year ended December 31, 2018.

The above errors, together, resulted in an understatement of related party payables by \$5.0 million as of the reported interim quarters ended June 30, 2018 and September 30, 2018; an understatement of related party payables by \$7.6 million as of the year ended December 31, 2018 and the reported interim quarter ended March 31, 2019; and an understatement of related party payables by \$11.4 million and \$9.9 million as of the quarters ended June 30, 2019 and September 30, 2019, respectively.

The Company incorrectly classified \$0.5 million and \$0.4 million of related party expense as selling, general and administrative expenses for the nine months ended September 30, 2019 and for the year ended December 31, 2018, respectively. This resulted in an overstatement of selling, general and administrative expenses and understatement of related party expense. This error had no impact on net loss.

*Revenue Recognition Adjustments:*

A \$4.8 million understatement of loss, for the year ended December 31, 2017, was due to incorrect recognition of revenue of \$6.4 million and related cost of revenue of \$1.6 million in 2017 related to a multiple element arrangement that included a software license where vendor specific objective evidence (VSOE) of fair value was not established for the undelivered elements of the arrangement under the previous revenue recognition guidance in ASC 985-605. This error resulted in a \$6.4 million understatement of deferred revenue and a \$1.6 million understatement of prepaid expenses and other current assets as at December 31, 2017. After correction of this error in the fiscal 2017 financial statements, the Company derecognized this deferred revenue of \$6.4 million and prepaid expenses and other current assets of \$1.6 million, resulting in net increase in the retained earnings of \$4.8 million on adoption of ASC 606 and ASC 340-40 on January 1, 2018.

Further, a \$1.9 million understatement of revenues and understatement of cost of revenue by the same amount for the nine months ended September 30, 2019, were due to incorrect application of the gross vs. net presentation guidance under ASC 606. The Company incorrectly netted the costs of rendering service from the revenue under a contract with one customer. This error had no impact on net loss.

*Cash Flows Classification Adjustments:*

The Company determined that operating cash flows were understated and financing cash flows overstated in the statement of cash flows by \$0.1 million and \$34.5 million for the years ended December 31, 2018 and 2017,

respectively, as a result of the incorrect interpretation of ASU 2016-15 (*Classification of Certain Receipts and Cash Payments*) and application on a retrospective basis upon adoption of ASU 2016-15 in 2018. Further, the Company determined that operating cash flows were overstated and investing cash flows understated in the statement of cash flows by \$14.3 million, \$7.5 million and \$11.0 million for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, as a result of misclassification of cash flows associated with outsourced contract costs.

*Other Adjustments:*

In addition to the errors described above, the restated financial statements also include adjustments to correct certain other immaterial errors, including previously unrecorded immaterial adjustments identified in audits of prior years' financial statements.

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**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(in thousands of United States dollars except share and per share amounts)

	As of December 31, 2018			
	As Previously Reported	Restatement Adjustment	As Restated	Restatement Reference
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 25,615	\$ 10,591	\$ 36,206	c
Restricted cash	18,239	(10,591)	7,648	c
Accounts receivable, net of allowance for doubtful accounts of \$4,359	270,812	—	270,812	
Inventories, net	16,220	—	16,220	
Prepaid expenses and other current assets	25,015	(78)	24,937	c
<b>Total current assets</b>	<b>355,901</b>	<b>(78)</b>	<b>355,823</b>	
Property, plant and equipment, net of accumulated depreciation of \$154,060	132,986	—	132,986	
Goodwill	708,258	—	708,258	
Intangible assets, net	407,021	(12,001)	395,020	b
Deferred income tax assets	16,225	120	16,345	c
Other noncurrent assets	19,391	—	19,391	
<b>Total assets</b>	<b>\$ 1,639,782</b>	<b>\$ (11,959)</b>	<b>\$ 1,627,823</b>	
<b>Liabilities and Stockholders' Equity (Deficit)</b>				
<b>Liabilities</b>				
Current liabilities				
Accounts payables	\$ 99,853	\$ —	\$ 99,853	
Related party payables	7,735	7,628	15,363	c
Income tax payable	1,996	—	1,996	
Accrued liabilities	66,008	41,347	107,355	a, c
Accrued compensation and benefits	54,583	(2,372)	52,211	c
Accrued interest	49,071	—	49,071	
Customer deposits	34,235	—	34,235	
Deferred revenue	16,504	—	16,504	
Obligation for claim payment	56,002	—	56,002	
Current portion of finance lease liabilities	17,498	—	17,498	
Current portion of long-term debts	29,237	—	29,237	
<b>Total current liabilities</b>	<b>432,722</b>	<b>46,603</b>	<b>479,325</b>	
Long-term debt, net of current maturities	1,306,423	—	1,306,423	
Finance lease liabilities, net of current portion	26,738	—	26,738	
Pension liabilities	25,269	2,372	27,641	c
Deferred income tax liabilities	11,212	2	11,214	c
Long-term income tax liabilities	3,024	—	3,024	
Other long-term liabilities	15,400	(683)	14,717	c
<b>Total liabilities</b>	<b>1,820,788</b>	<b>48,294</b>	<b>1,869,082</b>	
Commitments and Contingencies (Note 14)				
<b>Stockholders' equity (deficit)</b>				
Common stock, par value of \$0.0001 per share; 1,600,000,000 shares authorized; 152,692,140 shares issued and 150,142,955 shares outstanding (including the 4,570,734 shares returned to the Company in the first quarter of 2020 in connection with the Appraisal Action)	15	—	15	
Preferred stock, par value of \$0.0001 per share; 20,000,000 shares authorized; 4,569,233 shares issued and outstanding	1	—	1	
Additional paid in capital	482,018	(36,566)	445,452	
Less: Common Stock held in treasury, at cost; 2,549,185 shares	(10,342)	—	(10,342)	
Equity-based compensation	41,731	—	41,731	
Accumulated deficit	(678,563)	(23,829)	(702,392)	
Accumulated other comprehensive loss:				
Foreign currency translation adjustment	(6,565)	142	(6,423)	
Unrealized pension actuarial losses, net of tax	(9,301)	—	(9,301)	
Total accumulated other comprehensive loss	(15,866)	142	(15,724)	
<b>Total stockholders' deficit</b>	<b>(181,006)</b>	<b>(60,253)</b>	<b>(241,259)</b>	
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 1,639,782</b>	<b>\$ (11,959)</b>	<b>\$ 1,627,823</b>	

**As of December 31, 2018**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$40.6 million to accrued liabilities at December 31, 2018.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$12.0 million of decrease to intangible assets, net at December 31, 2018.
- (c) Other Misstatement Adjustments:

**Expense Reimbursement Adjustments:** The correction of this misstatement resulted in an increase of \$7.6 million to related party payables.

**Other Adjustments - Corrections to other misstatements were as follows:** (i) Reclassification of operating accounts that are not restricted resulted in an increase of \$10.6 million in cash and cash equivalents and decrease of \$10.6 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of \$2.4 million to Accrued compensation and benefits and an increase of \$2.4 million to pension liabilities. (iii) Correction of ASC 842 implementation related deferred rents decreased other long-term liabilities by \$0.7 million. (iv) Correction of non-accrual of legal expenses related to 2019 resulted in an increase of \$0.7 million to accrued liabilities.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
(in thousands of United States dollars except per share amounts)

	For the Year Ended December 31, 2018			For the Year Ended December 31, 2017			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
Revenue	\$ 1,586,222	\$ —	\$ 1,586,222	\$ 1,152,324	\$ (6,433)	\$ 1,145,891	c
Cost of revenue (exclusive of depreciation and amortization)	1,209,874	3,529	1,213,403	829,143	(1,599)	827,544	b, c
Selling, general and administrative expenses (exclusive of depreciation and amortization)	184,651	257	184,908	220,955	—	220,955	c
Depreciation and amortization	145,485	(7,408)	138,077	98,890	—	98,890	b
Impairment of goodwill and other intangible assets	48,127	—	48,127	69,437	—	69,437	
Related party expense	4,334	8,069	12,403	33,431	—	33,431	c
<b>Operating loss</b>	<b>(6,249)</b>	<b>(4,447)</b>	<b>(10,696)</b>	<b>(99,532)</b>	<b>(4,834)</b>	<b>(104,366)</b>	
Other expense (income), net:							
Interest expense, net	153,095	2,896	155,991	128,489	1,187	129,676	a
Debt modification and extinguishment costs	1,067	—	1,067	35,512	—	35,512	
Sundry expense (income), net	(3,271)	—	(3,271)	2,295	—	2,295	
Other expense (income), net	(3,030)	—	(3,030)	(1,297)	—	(1,297)	
<b>Net loss before income taxes</b>	<b>(154,110)</b>	<b>(7,343)</b>	<b>(161,453)</b>	<b>(264,531)</b>	<b>(6,021)</b>	<b>(270,552)</b>	
Income tax (expense) benefit	(8,407)	54	(8,353)	60,246	822	61,068	
<b>Net loss</b>	<b>\$ (162,517)</b>	<b>\$ (7,289)</b>	<b>\$ (169,806)</b>	<b>\$ (204,285)</b>	<b>\$ (5,199)</b>	<b>\$ (209,484)</b>	
Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature	—	—	—	(16,375)	—	(16,375)	
Cumulative dividends for Series A Preferred Stock	(3,655)	—	(3,655)	(2,489)	—	(2,489)	c
<b>Net loss attributable to common stockholders</b>	<b>\$ (166,172)</b>	<b>\$ (7,289)</b>	<b>\$ (173,461)</b>	<b>\$ (223,149)</b>	<b>\$ (5,199)</b>	<b>\$ (228,348)</b>	
<b>Loss per share:</b>							
Basic and diluted	\$ (1.09)	\$ (0.08)	\$ (1.17)	\$ (2.08)	\$ (0.10)	\$ (2.18)	

**For the year ended December 31, 2018**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$2.9 million to interest expense for the year ended December 31, 2018.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$4.2 million of increase to cost of revenue and a decrease of \$7.4 million to depreciation and amortization for the year ended December 31, 2018.
- (c) Other Misstatement Adjustments:

Expense Reimbursement Adjustments: The correction of this misstatement resulted in an increase of \$8.1 million to related party.

Other Adjustments - Corrections to other misstatements were as follows: (i) Correction of ASC 842 implementation related deferred rents decreased cost of revenue by \$0.7 million. (ii) Correction of non-accrual of legal expenses related to 2019 resulted in an increase of \$0.3 million to selling, general and administrative expenses.

**For the year ended December 31, 2017**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$1.2 million to interest expense for the year ended December 31, 2018.
- (c) Other Misstatement Adjustments:

Revenue Recognition Adjustments: The correction of this misstatement resulted in a decrease of \$6.4 million to revenue and a decrease of \$1.6 million to cost of revenue for the year ended December 31, 2017.

Other Adjustments - Corrections to other misstatements were as follows: (i) The correction of all misstatements resulted in an increase of \$0.8 million to income tax expense.

**Exela Technologies, Inc. and Subsidiaries  
Consolidated Statements of Comprehensive Loss**  
(in thousands of United States dollars)

	For the Year Ended December 31, 2018			For the Year Ended December 31, 2017			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
<b>Net loss</b>	<b><u>\$(162,517)</u></b>	<b><u>\$ (7,289)</u></b>	<b><u>\$(169,806)</u></b>	<b><u>\$(204,285)</u></b>	<b><u>\$ (5,199)</u></b>	<b><u>\$(209,484)</u></b>	
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustments	(6,371)	167	(6,204)	3,353	(25)	3,328	c
Unrealized pension actuarial gains (losses), net of tax	1,753	—	1,753	1,285	—	1,285	
<b>Total other comprehensive loss, net of tax</b>	<b><u><u>\$(167,135)</u></u></b>	<b><u><u>\$ (7,122)</u></u></b>	<b><u><u>\$(174,257)</u></u></b>	<b><u><u>\$(199,647)</u></u></b>	<b><u><u>\$ (5,224)</u></u></b>	<b><u><u>\$(204,871)</u></u></b>	

**For the year ended December 31, 2018**

The \$2.1 million decrease to net income was primarily driven by the misstatements in the Appraisal Action liability adjustments, outsourced contract adjustments, expense reimbursement adjustments and other adjustments. See additional

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descriptions of the net income impacts in the consolidated statement of operations for the year ended December 31, 2018 section above.

**For the year ended December 31, 2017**

The \$5.2 million decrease to net income was primarily driven by the misstatements in the Appraisal Action liability adjustments, revenue recognition adjustments and other adjustments. See additional descriptions of the net income impacts in the consolidated statement of operations for the year ended December 31, 2017 section above.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(in thousands of United States dollars)

	For the Year Ended December 31, 2018			For the Year Ended December 31, 2017			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
<b>Cash flows from operating activities</b>							
Net loss	\$ (162,517)	\$ (7,289)	(169,806)	\$ (204,285)	\$ (5,199)	(209,484)	
Adjustments to reconcile net loss							
Depreciation and amortization	145,485	(7,408)	138,077	98,890	—	98,890	b
Fees paid in stock	—	—	—	23,875	4,698	28,573	c
HGM contract termination fee paid in stock	—	—	—	10,000	—	10,000	
Original issue discount and debt issuance cost amortization	10,913	—	10,913	12,280	—	12,280	
Debt modification and extinguishment costs	—	103	103	—	34,459	34,459	c
Impairment of goodwill and other intangible assets	48,127	—	48,127	69,437	—	69,437	
Provision for doubtful accounts	2,767	—	2,767	500	—	500	
Deferred income tax provision	3,352	(132)	3,220	(66,723)	(822)	(67,545)	c
Share-based compensation expense	7,647	—	7,647	6,743	—	6,743	
Foreign currency remeasurement	(1,180)	—	(1,180)	1,382	—	1,382	
Loss (gain) on sale of assets	2,095	592	2,687	399	157	556	c
Fair value adjustment for interest rate swap	(2,540)	—	(2,540)	(1,297)	—	(1,297)	
Change in operating assets and liabilities, net of effect from acquisitions							
Accounts receivable	(19,319)	—	(19,319)	(4,832)	—	(4,832)	
Prepaid expenses and other assets	(2,820)	—	(2,820)	2,628	(1,599)	1,029	c
Accounts payable and accrued liabilities	5,157	3,658	8,815	69,551	7,620	77,171	c
Related party payables	(6,710)	7,628	918	4,907	—	4,907	c
Additions to outsource contract costs	—	(4,009)	(4,009)	—	(10,992)	(10,992)	b
Net cash provided by (used in) operating activities	<b>30,457</b>	<b>(6,857)</b>	<b>23,600</b>	<b>23,455</b>	<b>28,322</b>	<b>51,777</b>	
<b>Cash flows from investing activities</b>							
Purchase of property, plant and equipment	(20,072)	—	(20,072)	(14,440)	—	(14,440)	
Additions to internally developed software	(7,438)	—	(7,438)	(7,843)	—	(7,843)	
Additions to outsourcing contract costs	(7,552)	7,552	—	(10,992)	10,992	—	b
Cash acquired in Quinpario reverse merger	—	—	—	91	—	91	
Cash paid in acquisition, net of cash received	(34,810)	—	(34,810)	(423,797)	—	(423,797)	
Proceeds from sale of assets	3,568	—	3,568	4,607	—	4,607	
Net cash provided by (used in) investing activities	<b>(66,304)</b>	<b>7,552</b>	<b>(58,752)</b>	<b>(452,374)</b>	<b>10,992</b>	<b>(441,382)</b>	
<b>Cash flows from financing activities</b>							
Change in bank overdraft	—	—	—	(210)	—	(210)	
Loss on extinguishment of debt	1,067	(1,067)	—	35,512	(35,512)	—	c
Proceeds from issuance of stock	—	—	—	204,417	—	204,417	
Cash received from Quinpario	—	—	—	27,031	(4,698)	22,333	c
Repurchases of Common Stock	(7,221)	—	(7,221)	(249)	—	(249)	
Contribution from Shareholders	—	—	—	20,548	—	20,548	
Cash paid for equity issuance costs	(7,500)	—	(7,500)	(149)	—	(149)	
Lease terminations	—	(592)	(592)	—	(157)	(157)	c
Retirement of previous credit facilities	—	—	—	(1,055,736)	—	(1,055,736)	
Cash paid for debt issuance costs	(1,094)	964	(130)	(39,837)	1,053	(38,784)	c
Principal payments on finance lease obligations	(16,068)	—	(16,068)	(11,361)	—	(11,361)	
Borrowings from senior secured revolving facility	30,000	—	30,000	72,600	—	72,600	
Repayments on senior secured revolving facility	(30,000)	—	(30,000)	(72,500)	—	(72,500)	
Proceeds from issuance of notes	—	—	—	977,500	—	977,500	
Proceeds from senior secured term loans	30,000	—	30,000	343,000	—	343,000	
Borrowings from other loans	11,557	—	11,557	3,116	—	3,116	
Principal repayments on senior secured term loans and other loans	(12,651)	—	(12,651)	(27,955)	—	(27,955)	
Net cash provided by (used in) financing activities	<b>(1,910)</b>	<b>—</b>	<b>(2,605)</b>	<b>475,727</b>	<b>(39,314)</b>	<b>436,413</b>	
Effect of exchange rates on cash	122	—	122	429	—	429	
Net decrease in cash and cash equivalents	<b>(37,635)</b>	<b>—</b>	<b>(37,635)</b>	<b>47,237</b>	<b>—</b>	<b>47,237</b>	
Cash, restricted cash, and cash equivalents							
Beginning of period	<b>81,489</b>	<b>—</b>	<b>81,489</b>	<b>34,252</b>	<b>—</b>	<b>34,252</b>	
End of period	<b>\$ 43,854</b>	<b>\$ —</b>	<b>\$ 43,854</b>	<b>\$ 81,489</b>	<b>\$ —</b>	<b>\$ 81,489</b>	
<b>Supplemental cash flow data:</b>							
Income tax payments, net of refunds received	\$ 7,827	\$ —	\$ 7,827	\$ 5,711	\$ —	\$ 5,711	
Interest paid	146,076	—	146,076	69,622	—	69,622	
<b>Noncash investing and financing activities:</b>							
Assets acquired through right-of-use arrangements	14,920	—	14,920	6,973	—	6,973	
Leasehold improvements funded by lessor	1,565	—	1,565	146	—	146	
Issuance of Common Stock as consideration for Novitex	—	—	—	244,800	—	244,800	
Accrued capital expenditures	2,820	—	2,820	1,621	—	1,621	
Dividend equivalent on Series A Preferred Stock	—	—	—	16,375	—	16,375	
Liability assumed of Quinpario	—	—	—	4,672	26	4,698	

**For the year ended December 31, 2018**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the year ended December 31, 2018 above.

Cash flow classification adjustment related to incorrect interpretation of ASU 2016-15 (Classification of Certain Receipts and Cash Payments) in 2018 resulted in a net increase to cash flows provided by operating activities of \$0.1 million, a decrease to net cash flows provided by financing activities of \$0.1 million for the year ended December 31, 2018. (Debt modification and extinguishment costs, loss on extinguishment of debt & cash paid for debt issuance costs)

The misstatements in the cash flow misclassifications category related to lease terminations resulted in a decrease to net cash flows provided by financing activities of \$0.6 million and an increase to net cash flows provided by operating activities of \$0.6 million for the year ended December 31, 2018. (Loss on sale of assets and lease terminations)

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of \$11.4 million (\$7.4 million of depreciation and amortization and \$4.0 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of \$7.6 million (Additions to outsourcing contract costs) for the year ended December 31, 2018.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the year ended December 31, 2018.

**For the year ended December 31, 2017**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the year ended December 31, 2017 above.

Cash flow classification adjustment related to incorrect interpretation of ASU 2016-15 (Classification of Certain Receipts and Cash Payments) in 2017 resulted in a net increase to cash flows provided by operating activities of \$34.5 million, a decrease to net cash flows provided by financing activities of \$34.5 million for the year ended December 31, 2017 (Debt modification and extinguishment costs, loss on extinguishment of debt & cash paid for debt issuance costs).

The misstatements in the cash flow misclassifications category related to (a) Lease terminations resulted in a decrease to net cash flows provided by financing activities of \$0.2 million and an increase to net cash flows provided by operating activities of \$0.2 million (loss on sale of assets and lease terminations) and (b) Fees paid in stock to Quinpario resulted in an increase of \$4.7 million to net cash provided by operating activities and a decrease of \$4.7 million to cash flows provided by net financing cash flow activities for the year ended December 31, 2017.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of \$11.0 million (Additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of \$11.0 million (Additions to outsourcing contract costs) for the year ended December 31, 2017.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the year ended December 31, 2017.

**4. 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

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management and business process automation across Europe. The purchase price was approximately \$19.5 million. The acquisition was 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:

<b>Assets Acquired:</b>	
Cash and cash equivalents	\$ 5,595
Accounts receivable	25,740
Other current assets	2,282
Inventories	1,137
Property, plant, and equipment	4,747
Deferred income tax assets	6,316
Other noncurrent assets	522
Intangible assets	3,525
Goodwill	1,493
<b>Total identifiable assets acquired</b>	<b>\$ 51,357</b>
<b>Liabilities Assumed:</b>	
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)
<b>Total liabilities assumed</b>	<b>\$ (31,889)</b>
<b>Total Consideration</b>	<b>\$ 19,468</b>

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.

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

Through the acquisition of Asterion, we expect to leverage brand awareness, strengthen margins, and expand the existing Asterion sales channels. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Asterion's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. Exela recognized \$73.9 million and \$59.7 million in revenue related to Asterion in the Consolidated Statements of Operations for the years ended December 31, 2019 and 2018, respectively. The pro-forma financial statements of Asterion are not considered material from an overall disclosure perspective, and therefore, are not included here.

## 5. Accounts Receivable

Accounts receivable, net consist of the following:

	December 31,	
	2019	2018
Billed receivables	\$ 222,168	\$ 226,252
Unbilled receivables	34,135	39,498
Other	10,072	9,421
Less: Allowance for doubtful accounts	(4,975)	(4,359)
	<u>\$ 261,400</u>	<u>\$ 270,812</u>

Unbilled receivables represent balances recognized as revenue that have not been billed to the customer. The Company's allowance for doubtful accounts is based on a policy developed by historical experience and management judgment. Adjustments to the allowance for doubtful accounts may occur based on market conditions or specific client circumstances.

## 6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	December 31,	
	2019	2018
Prepays	\$ 23,243	\$ 24,712
Deposits	420	225
	<u>\$ 23,663</u>	<u>\$ 24,937</u>

## 7. 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 (As Restated)	Impact of Lease Standard	Balance at January 1, 2019
Total assets	\$ 1,627,823	\$ 104,214	\$ 1,732,037
Total current liabilities	479,325	25,685	505,010
Total long-term liabilities	1,389,757	79,028	1,468,785

The increase in total assets and total liabilities at January 1, 2019 from December 31, 2018 was due to the impact from the adoption of the new accounting standard pertaining to lease arrangements.

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Company's ROU assets and lease liabilities as of December 31, 2019 are recorded on the consolidated balance sheet as follows:

	<b>December 31, 2019</b>
<i>Balance sheet location:</i>	
<b>Operating Lease</b>	
Operating lease right-of-use assets, net	\$ 93,627
Current portion of operating lease liabilities	25,345
Operating lease liabilities, net of current portion	73,282
<b>Finance Lease</b>	
Finance lease right-of-use assets, net (included in property, plant and equipment, net)	30,835
Current portion of finance lease liabilities	13,788
Finance lease liabilities, net of current portion	20,272

As of December 31, 2019, the weighted-average remaining lease term of operating leases and finance leases was 4.8 years and 3.2 years, respectively. The weighted-average discount rate for operating leases and finance leases was 10.5% and 9.1%, respectively.

The interest on financing lease liabilities for the year ended December 31, 2019 was \$3.3 million. The amortization expense on finance lease right-of-use assets for the year ended December 31, 2019 was \$15.1 million.

The following table summarizes maturities of finance and operating lease liabilities based on lease term as of December 31, 2019:

	<b>Finance Leases</b>	<b>Operating Leases</b>
2020	\$ 16,282	\$ 33,315
2021	10,652	26,210
2022	5,696	20,589
2023	2,941	15,348
2024	2,632	11,606
2025 and thereafter	1,554	17,356
Total lease payments	<u>39,757</u>	<u>124,424</u>
Less: Imputed interest	<u>(5,697)</u>	<u>(25,797)</u>
Present value of lease liabilities	<u>\$ 34,060</u>	<u>\$ 98,627</u>

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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 \$77.3 million, \$83.8 million, and \$60.0 million for the years ended December 31, 2019, 2018, and 2017, respectively.

The following table summarizes the cash paid and related right-of-use operating finance or operating lease recognized for the year ended December 31, 2019.

	Year Ended December 31, 2019
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash flows from operating leases	\$ 50,398
Financing cash flows from finance leases	20,860
<b>Right-of-use lease assets obtained in the exchange for lease liabilities:</b>	
Operating leases	19,127
Finance leases	10,731

## 8. Property, Plant and Equipment, Net

Property, plant, and equipment, which include assets recorded under finance leases, are stated at cost less accumulated depreciation, and amortization, and consist of the following:

	Estimated Useful Lives (in Years)	December 31,	
		2019	2018
Land	N/A	\$ 6,884	\$ 6,888
Buildings and improvements	7 – 40	20,288	20,518
Leasehold improvements	Shorter of life of improvement or lease term	47,036	56,589
Vehicles	5 – 7	531	717
Machinery and equipment	5 – 15	28,489	62,746
Computer equipment and software	3 – 8	92,500	130,864
Furniture and fixtures	5 – 15	9,440	8,724
Finance lease right-of-use assets	Shorter of life of the asset or lease term	85,464	—
		<u>290,632</u>	<u>287,046</u>
Less: Accumulated depreciation and amortization		(176,995)	(154,060)
Property, plant and equipment, net		<u>\$ 113,637</u>	<u>\$ 132,986</u>

Depreciation expense related to property, plant and equipment was \$41.4 million, \$43.1 million, and \$31.7 million for the years ended December 31, 2019, 2018, and 2017, respectively.

## 9. Intangible Assets and Goodwill

### Intangibles

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

	December 31, 2019		
	Gross Carrying Amount (a)	Amortization	Intangible Asset, net
Customer relationships	\$ 508,074	\$ (237,313)	\$ 270,761
Developed technology	89,053	(87,109)	1,944
Trade names (b)	8,400	(3,100)	5,300
Outsource contract costs	16,726	(11,749)	4,977
Internally developed software	43,261	(12,129)	31,132
Trademarks	23,378	(23,370)	8
Non-compete agreements	1,350	(1,350)	—
Assembled workforce	4,473	(1,118)	3,355
Purchased software	26,749	(1,783)	24,966
Intangibles, net	<u>\$ 721,464</u>	<u>\$ (379,021)</u>	<u>\$ 342,443</u>

	December 31, 2018 (As Restated)		
	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	15,439	(8,817)	6,622
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>\$ 714,568</u>	<u>\$ (319,548)</u>	<u>\$ 395,020</u>

- (a) Amounts include intangibles acquired in business combinations and asset acquisitions.
- (b) The carrying amount of trade names for 2019 is net of accumulated impairment losses of \$44.1 million, of which \$1.0 million was recognized in 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.

During the third quarter of 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. 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 in the third quarter, the Company recorded an impairment charge to goodwill and trade names of \$96.2 million (as restated) and \$1.0 million, respectively. The Company did not update its analysis for

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purposes of the annual impairment test as of October 1, 2019 as the measurement date of the impairment test performed during the quarter-ended September 30, 2019 was one day from the annual impairment test date.

Additionally, later during the fourth quarter of 2019, the Company conducted its annual budgeting process along with an update to its long-range plan. Following the completion of that process, 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, concluding that a second triggering event for an impairment analysis had occurred. Revised long-term projections coupled with a decline in the market capitalization, 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. Accordingly, we performed another quantitative impairment test as of December 31, 2019, resulting in an additional impairment charge of \$252.4 million to goodwill. Therefore, as a result of these two interim impairment assessments in the third and fourth quarters of 2019, impairment charges totaling \$348.6 million and \$1.0 million were recorded to goodwill and trade names, respectively, for the year ended December 31, 2019. Accumulated impairment losses on goodwill were \$560.9 million and \$212.3 million as at December 31, 2019 and 2018, respectively.

In connection with the completion of the annual impairment test as of October 1, 2018, the Company recorded impairment charges of \$44.4 million and \$3.7 million to goodwill and trade names, respectively.

The impairment charges are included within Impairment of goodwill and other intangible assets in the consolidated statements of operations for both 2018 and 2019.

Aggregate amortization expense related to intangibles was \$59.3 million, \$94.9 million (as restated), and \$67.1 million (as restated) for the years ended December 31, 2019, 2018, and 2017, respectively.

Estimated intangibles amortization expense for the next five years and thereafter consists of the following:

	Estimated Amortization Expense (As Restated)
2020	\$ 55,323
2021	50,015
2022	45,535
2023	37,168
2024	29,704
Thereafter	<u>120,163</u>
	<u>\$ 337,908</u>

### **Goodwill**

Goodwill by reporting segment consists of the following:

	Beginning of Year Balance (a)	Additions	Reductions	Currency Translation Adjustments	End of Year Balance (a)
ITPS	\$ 566,215	\$ 5,580	(c)\$ —	\$ (220)	\$ 571,575
HS	86,786	—	—	—	86,786
LLPS	94,324	—	(44,427)(b)	—	49,897
<b>Total - Year 2018</b>	<b>\$ 747,325</b>	<b>\$ 5,580</b>	<b>\$ (44,427)</b>	<b>\$ (220)</b>	<b>\$ 708,258</b>
ITPS	571,575	—	(317,525)(d)	70	254,120
HS	86,786	—	—	—	86,786
LLPS	49,897	—	(31,032)(e)	—	18,865
<b>Total - Year 2019</b>	<b>\$ 708,258</b>	<b>\$ —</b>	<b>\$ (348,557)</b>	<b>\$ 70</b>	<b>\$ 359,771</b>

- 
- (a) The carrying amount of goodwill 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 for impairment recorded in the fourth quarter of 2018.
  - (c) Addition to goodwill due to the Asterion Business Combination (Refer to note 4) and other immaterial acquisitions in the third and fourth quarter of 2018.
  - (d) The reduction in goodwill for the ITPS segment is due to \$317.5 million for impairment recorded for the year ended December 31, 2019.
  - (e) The reduction in goodwill for the LLPS segment is due to \$31.0 million for impairment recorded for the year ended December 31, 2019.

## 10. Accrued Liabilities and Other Long-Term Liabilities

Accrued liabilities consist of the following:

	December 31,	
	2019	2018 (As Restated)
Accrued taxes (exclusive of income taxes)	\$ 9,608	\$ 10,606
Accrued lease exit obligations	1,127	1,694
Accrued professional and legal fees	33,421	31,220
Accrued appraisal action liability	56,412	40,649
Accrued rent	—	1,421
Accrued transaction costs	2,250	2,250
Other accruals	18,735	19,515
	<b>\$ 121,553</b>	<b>\$ 107,355</b>

Other Long-term liabilities consist of the following:

	December 31,	
	2019	2018 (As Restated)
Deferred revenue	\$ 339	\$ 432
Accrued rent	669	7,650
Accrued lease exit obligations	136	369
Accrued compensation expense	2,075	2,173
Other	3,743	4,093
	<b>\$ 6,962</b>	<b>\$ 14,717</b>

## 11. 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 (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. As of December 31, 2019, the Company was in compliance with all covenants required under the Notes.

## **Debt Refinancing**

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

In accordance with ASC 470 – Debt – Modifications and Extinguishments, as a result of certain lenders that participated in SourceHOV’s debt structure prior to the refinancing and the Company’s debt structure after the refinancing, it was determined that a portion of the refinancing of SourceHOV’s first lien secured term loan and second lien secured term loan (“Original SourceHOV Term Loans”) would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The Company incurred \$28.9 million in debt issuance costs related to the new secured term loan, of which \$2.8 million was third party costs. The Company recorded \$7.0 million of original issue discount as part of the refinancing. The Company expensed \$1.1 million of costs related to the modified debt and capitalized the remaining \$27.8 million. The Company wrote off \$30.5 million of the unamortized issuance costs and discounts associated with the retirement of SourceHOV’s credit facilities. The Company retained approximately \$3.3 million and \$3.5 million of debt issuance costs and debt discounts, respectively, associated with the modified portion of the Original SourceHOV Term Loans that will be amortized over the term of the new term loan, which are presented on the balance sheet as a contra-debt liability. The Company incurred a \$5.0 million prepayment penalty related to the Original SourceHOV Term Loans that was recorded as a loss on extinguishment of debt.

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

## **Senior Credit Facilities**

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a \$350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount (“OID”) of \$7.0 million, and (ii) a \$100.0 million senior secured revolving facility maturing July 12, 2022. As of December 31, 2019 and 2018 the Company had outstanding irrevocable letters of credit totaling \$20.6 million 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 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.

On May 18, 2020, the Company amended the Credit Agreement to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. In the event the Company delivers the annual and quarterly financial statements described above within the time frames stated within such agreement (which the Company believes it has now satisfied with respect to the annual financial statements, but not with respect to quarterly financial statements), the Company will, upon delivery of such financial statements, be in compliance with the Credit Agreement, with respect to the financial statement delivery requirements set forth therein. Pursuant to the amendment, the Company also amended the Credit Agreement to, among other things: restrict the borrower and its subsidiaries’ ability to designate or invest in unrestricted subsidiaries; incur certain debt; create certain liens; make certain investments; pay certain dividends or other distributions on account of its equity interests; make certain asset sales or other dispositions (or utilize the proceeds of

certain asset sales to reinvest in the business); or enter into certain affiliate transactions pursuant to the negative covenants under the Credit Agreement. Further, pursuant to the amendment, the borrower under the Credit Agreement is also required to maintain a minimum Liquidity (as defined in the amendment) of \$35.0 million. As of December 31, 2019, the Company was in compliance with all covenants required under these senior credit facilities.

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

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

The Repricing Term Loans will bear interest at a rate per annum of, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.0% 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 existing senior secured term loans.

### **2018 Incremental Term Loan**

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

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

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

## 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. 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 December 31, 2019 and 2018, the following long-term debt instruments were outstanding:

	December 31,	
	2019	2018
Other (a)	\$ 30,232	25,321
First lien credit agreement (b)	360,583	335,896
Senior secured notes (c)	979,060	974,443
Revolver	65,000	—
Total debt	1,434,875	1,335,660
Less: Current portion of long-term debt	(36,490)	(29,237)
Long-term debt, net of current maturities	\$ 1,398,385	\$ 1,306,423

- (a) Other debt represents outstanding loan balances associated with various hardware, software purchases, maintenance and leasehold improvements along with loans entered into by subsidiaries of the Company.
- (b) Net of unamortized original issue discount and debt issuance costs of \$6.5 million and \$18.9 million as of December 31, 2019 and \$8.3 million and \$24.5 million as of December 31, 2018.
- (c) Net of unamortized original issue discount and debt issuance costs of \$14.9 million and \$6.0 million as of December 31, 2019 and \$18.2 million and \$7.3 million as of December 31, 2018.

As of December 31, 2019, maturities of long-term debt are as follows:

	Maturity
2020	\$ 36,490
2021	25,198
2022	91,187
2023	1,325,445
2024	2,921
Thereafter	—
Total long-term debt	1,481,241
Less: Unamortized discount and debt issuance costs	(46,366)
	\$1,434,875

## 12. Income Taxes

The Company provides for income taxes using an asset and liability approach, under which deferred income taxes are provided for based upon enacted tax laws and rates applicable to periods in which the taxes become payable.

For financial reporting purposes, income/ (loss) before income taxes includes the following components:

	Year Ended December 31,		
	2018 (As Restated)		2017 (As Restated)
	2019		
United States	\$ (511,165)	\$ (180,245)	\$ (281,009)
Foreign	9,691	18,792	10,457
	<b><u>\$ (501,474)</u></b>	<b><u>\$ (161,453)</u></b>	<b><u>\$ (270,552)</u></b>

The provision for federal, state, and foreign income taxes consists of the following:

	Year Ended December 31,		
	2018 (As Restated)		2017 (As Restated)
	2019		
<b>Federal</b>			
Current	\$ (1,308)	\$ 1,308	\$ (722)
Deferred	(3,879)	(2,006)	(59,425)
<b>State</b>			
Current	2,255	390	1,407
Deferred	(807)	2,339	(7,178)
<b>Foreign</b>			
Current	5,770	3,435	5,794
Deferred	<b><u>5,611</u></b>	<b><u>2,887</u></b>	<b><u>(944)</u></b>
<b>Income Tax Expense (Benefit)</b>	<b><u>\$ 7,642</u></b>	<b><u>\$ 8,353</u></b>	<b><u>\$ (61,068)</u></b>

The differences between income taxes expected by applying the U.S. federal statutory tax rate of 21% and the amount of income taxes provided for are as follows:

	Year Ended December 31,		
	2018 (As Restated)		2017 (As Restated)
	2019		
Tax at statutory rate	<b><u>\$ (105,310)</u></b>	<b><u>\$ (33,905)</u></b>	<b><u>\$ (94,693)</u></b>
<b>Add (deduct)</b>			
State income taxes	(7,666)	(6,557)	(4,219)
Foreign income taxes	4,390	1,228	305
Nondeductible transaction costs	—	—	27,311
Nondeductible goodwill impairment	61,699	9,002	10,497
Permanent differences	1,275	2,542	438
Litigation settlement	3,310	608	415
Changes in valuation allowance	30,064	19,433	(6,159)
Unremitted earnings	1,604	4,735	—
Changes in U.S tax rates	—	—	(4,784)
Deemed mandatory repatriation	—	—	7,441
GILTI Inclusion	3,772	2,289	—
Expiration of tax attributes	10,807	8,353	—
Other	3,697	625	2,380
<b>Income Tax Expense (Benefit)</b>	<b><u>\$ 7,642</u></b>	<b><u>\$ 8,353</u></b>	<b><u>\$ (61,068)</u></b>

The Tax Cuts and Jobs Act (“TCJA”) was signed by the President of the United States and enacted into law on December 22, 2017. This overhaul of the U.S. tax law made a number of substantial changes, including the reduction of

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the corporate tax rate from 35% to 21%, establishing a dividends received deduction for dividends paid by foreign subsidiaries to the U.S., elimination or limitation of certain deductions (interest, domestic production activities and executive compensation), imposing a mandatory tax on previously unrepatriated earnings accumulated offshore since 1986 and establishing global minimum income tax and base erosion tax provisions related to offshore activities and affiliated party payments.

The TCJA subjects a U.S. shareholder to tax on Global Intangible Low-taxed Income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for GILTI, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. The Company has elected the accounting policy to recognize the tax expense related to GILTI in the year the tax is incurred as a period expense. At December 31 2019, the Company has included GILTI related to current-year operations in the amount of \$18.0 million to compute the annual effective tax rate. At December 31, 2018, the Company had provided \$2.3 million for tax impacts of GILTI.

Beginning in 2018, the TCJA also subjects a U.S. shareholder of a controlled foreign corporation to current tax on certain payments from corporations subject to U.S. tax to related foreign persons, also referred to as base erosion and anti-abuse tax ("BEAT"). The BEAT provisions in the Tax Reform Act eliminate the deduction of certain base-erosion payments made to related foreign corporations and impose a minimum tax if greater than regular tax. The Company recorded zero tax expense related to BEAT for the year ended December 31, 2019. The Company had recorded \$1.3 million tax expense related to BEAT for the year ended December 31, 2018.

The components of deferred income tax liabilities and assets are as follows:

	<u>Year Ended December 31,</u>	
	<u>2018</u>	
	<u>2019</u>	<u>(As Restated)</u>
<b>Deferred income tax liabilities:</b>		
Book over tax basis of intangible and fixed assets	\$ (77,088)	\$ (94,648)
Unremitted foreign earnings	(6,339)	(4,735)
Operating and finance right-of-use assets	(16,981)	—
Other, net	\$ (2,571)	\$ (4,079)
<b>Total deferred income tax liabilities</b>	<b>(102,979)</b>	<b>(103,462)</b>
<b>Deferred income tax assets:</b>		
Allowance for doubtful accounts and receivable adjustments	\$ 1,498	\$ 1,676
Inventory	903	1,629
Accrued liabilities	11,608	9,433
Net operating loss and tax credit carryforwards	158,265	184,430
Tax deductible goodwill	8,066	3,147
Disallowed interest deduction	56,873	26,897
Operating and finance lease liabilities	18,127	—
Other, net	15,481	16,031
<b>Total deferred income tax assets</b>	<b>\$ 270,820</b>	<b>\$ 243,243</b>
Valuation allowance	(163,806)	(134,650)
<b>Total net deferred income tax assets (liabilities)</b>	<b>\$ 4,036</b>	<b>\$ 5,131</b>

Gross deferred tax assets are reduced by valuation allowances to the extent the Company determines it is not more-likely-than-not that the deferred tax assets are expected to be realized. At December 31, 2019, the Company recognized \$163.8 million of valuation allowances against gross deferred tax assets primarily related to net operating loss and tax credit carryforwards. Of this amount, approximately \$65.4 million and \$5.8 million of the total valuation allowance relates to U.S. federal and state limitations on the utilization of net operating loss carryforwards due to numerous changes in ownership. Approximately \$48.9 million and \$7.2 million of the total valuation allowance relates

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to U.S. federal and state disallowed interest deductions pursuant to the TCJA. The remaining \$37.6 million of the valuation allowance relates to non-limited U.S. and non-U.S. net operating losses, capital losses, and tax credits that are not expected to be realizable.

The net change during the year in the total valuation allowance was an increase of \$29.2 million primarily related to the increase of net regular deferred tax assets and the increase of deferred tax assets related to disallowed interest deduction.

Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), limits the amount of U.S. tax attributes (net operating losses and tax credit carryforwards) following a change in ownership. The Company has determined that for the purpose of these provisions an ownership change occurred under Section 382 on April 3, 2014 and October 31, 2014 for BancTec, Inc. and its subsidiaries and RC4Capital, LLC and its subsidiaries (collectively, the "Pangea Group") and on October 31, 2014 for the historic SourceHOV group (the "2014 Reorganization"). The Section 382 limitations significantly limit the pre-acquisition Pangea Group net operating losses. Accordingly, upon the October 31, 2014 change in control, most of the historic Pangea Group federal net operating losses were limited and a valuation allowance has been established against the related deferred tax assets. Following the filing of the October 31, 2014, Pangea Group federal tax returns and further Section 382 analysis, management finalized the amount of the limitation and as a result, approximately \$3.5 million of the valuation allowance was released. Management has concluded that the U.S. tax attributes after Section 382 limitations were applied are more likely than not to be realized. With regard to Pangea Group's foreign subsidiaries, it was determined that most deferred tax assets are not likely to be realized and valuation allowances have been established. The Section 382 limit that applied to the historic SourceHOV group is greater than the net operating losses and tax credits generated in the predecessor periods. Therefore, no additional valuation allowances were established relating to Section 382 limitations other than the pre-2011 Section 382 limitations that applied.

Included in deferred tax assets are federal, foreign and state net operating loss carryforwards, federal capital loss carryforwards, federal general business credit carryforwards and state tax credit carryforwards due to expire beginning in 2020 through 2039. As of December 31, 2019, the Company has federal and state income tax net operating loss (NOL) carryforwards of \$573.8 million and \$421.5 million, which will expire at various dates from 2020 through 2039. Such NOL carryforwards expire as follows:

	<b>Federal NOL</b>	<b>State and Local NOL</b>
2020 – 2024	\$ 86,371	\$ 60,478
2025 – 2029	134,448	94,661
2030 – 2039	352,972	266,348
	<b>\$ 573,791</b>	<b>\$ 421,487</b>

As of December 31, 2019, the Company has foreign net operating loss carryforwards of \$37.3 million, \$1.2 million of which were generated by Exela Poland, and will expire in 2024, and the rest of which can be carried forward indefinitely.

Since the 2014 Reorganization did not result in a new tax basis of assets and liabilities for the Company, some of the goodwill continues to be deductible over the remaining amortization period for tax purposes. At December 31, 2019, approximately \$41.4 million of the Company goodwill is tax deductible, \$20.9 million of which is carried over from the 2014 Reorganization. Additionally, the Company has tax deductible goodwill of \$17.0 million in connection with the TransCentra acquisition, and \$3.5 million in connection with the Novitex acquisition. These amounts were related to the tax basis carried over from the seller in those acquisitions.

The Company adopted the provision of accounting for uncertainty in income taxes in ASC Topic 740. ASC 740 clarifies the accounting for uncertain tax positions in the Company's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on tax returns. The total amount of unrecognized tax benefits at December 31, 2019 is \$6.4 million, and if recognized \$2.8 million would benefit the effective tax rate. Total accrued interest and penalties recorded on the Consolidated Balance

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Sheet were \$2.1 million and \$2.3 million at December 31, 2019 and 2018, respectively. The total amount of interest and penalties recognized in the Consolidated Statement of Operations at December 31, 2019 was \$(0.2) million. The Company does not anticipate a significant change in the amount of unrecognized tax benefits during 2018.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits:

	Year Ended December 31,		
	2019	2018 (As Restated)	2017 (As Restated)
<b>Unrecognized tax benefits—January 1</b>	\$ 1,476	\$ 1,047	\$ 999
Gross increases—tax positions in prior period	1,378	301	48
Gross decreases—tax positions in prior period	(10)	—	—
Gross increases—tax positions in current period	1,470	128	—
Settlement	—	—	—
Lapse of statute of limitations	—	—	—
<b>Unrecognized tax benefits—December 31</b>	<b>\$ 4,314</b>	<b>\$ 1,476</b>	<b>\$ 1,047</b>

The Company files income tax returns in the U.S. and various state and foreign jurisdictions. The statute of limitations for U.S. purposes is open for tax years ending on or after December 31, 2015. However, NOLs generated in years prior to 2015 and utilized in future periods may be subject to examination by U.S. tax authorities. State jurisdictions that remain subject to examination are not considered significant. The Company has significant foreign operations in India and EMEA. The Company may be subject to examination by the India tax authorities for tax periods ending on or after March 31, 2013.

At December 31, 2019, the Company has not changed its prior indefinite reinvestment assertion on undistributed earnings related to certain foreign subsidiaries. Accordingly, no deferred taxes have been provided for withholding taxes or other taxes that would result upon repatriation of approximately \$105.2 million of undistributed earnings from these foreign subsidiaries as those earnings continue to be permanently reinvested. However, the Company does not indefinitely reinvest earnings in Canada, China, India, Mexico and Philippines. At December 31, 2019, the Company recorded \$6.3 million of foreign withholding taxes on the undistributed earnings of these jurisdictions, \$1.6 million of which was recorded in the Consolidated Statements of Operations at December 31, 2019 and \$4.7 million was recorded at December 31, 2018.

### **13. Employee Benefit Plans**

#### **German Pension Plan**

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

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

The Company's subsidiary in the United Kingdom provides pension benefits to eligible 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.

The expected rate of return assumptions for plan assets relate solely to the UK plan and are based mainly on historical performance achieved over a long period of time (15 to 20 years) encompassing many business and economic cycles. The Company assumed a weighted average expected long-term rate on plan assets of 3.87%.

**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. The expected rate of return assumptions for plan assets relate solely to the Norway plan and are based mainly on historical performance achieved over a long period of time (10 to 20 years) encompassing many business and economic cycles. The Company assumed a weighted average expected long-term rate on plan assets of 3.8%.

**Asterion Pension Plan**

The Company acquired in 2018 through the Asterion Business Combination the obligation to provide pension benefits to eligible retirees and eligible dependents. 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. The Company uses a December 31 measurement date for this plan.

With respect to all of the plans as discussed, no new employees are registered under these plans and the employees who are already eligible to receive benefits under these plans are no longer employed by the Company.

### Funded Status

The change in benefit obligations, the change in the fair value of the plan assets and the funded status of the Company's pension plans (except for the German pension plan which is unfunded) and the amounts recognized in the Company's consolidated financial statements are as follows:

	Year ended December,	
	2019	2018
<b>Change in Benefit Obligation:</b>		
Benefit obligation at beginning of period	\$ 90,051	\$ 91,875
Additional obligation due to acquisition	—	5,631
Service cost	80	82
Interest cost	2,448	2,350
Actuarial loss (gain)	9,168	(4,356)
Plan amendments	(835)	1,334
Benefits paid	(3,082)	(1,558)
Foreign-exchange rate changes	3,131	(5,307)
Benefit obligation at end of year	<u>\$ 100,961</u>	<u>\$ 90,051</u>
<b>Change in Plan Assets:</b>		
Fair value of plan assets at beginning of period	\$ 62,952	\$ 64,886
Additional assets due to acquisition	—	2,184
Actual return on plan assets	10,906	(1,432)
Employer contributions	2,557	2,477
Benefits paid	(2,995)	(1,421)
Foreign-exchange rate changes	2,455	(3,742)
Fair value of plan assets at end of year	<u>75,875</u>	<u>62,952</u>
Funded status at end of year	<u><u>\$ (25,086)</u></u>	<u><u>\$ (27,099)</u></u>
<b>Net amount recognized in the Consolidated Balance Sheets:</b>		
Pension liability (a)	\$ (25,681)	\$ (27,641)
Amounts recognized in accumulated other comprehensive loss, net of tax consist of:		
Net actuarial loss	(8,059)	(9,301)
Net amount recognized in accumulated other comprehensive loss, net of tax	<u><u>\$ (8,059)</u></u>	<u><u>\$ (9,301)</u></u>
<b>Plans with underfunded or non-funded accumulated benefit obligation:</b>		
Aggregate projected benefit obligation	\$ 100,961	\$ 90,050
Aggregate accumulated benefit obligation	\$ 100,961	\$ 90,050
Aggregate fair value of plan assets	\$ 75,875	\$ 62,883

- (a) Consolidated balance of \$25.7 million for the year ended December 31, 2019 includes pension liabilities of \$20.6 million, \$2.4 million, \$2.1 million and \$0.1 million under U.K., Asterion, German and Norway pension plans, respectively, and minimum regulatory benefit for a Philippines legal entity of \$0.5 million. Consolidated balance of \$27.6 million for the year ended December 31, 2018 includes pension liabilities of \$22.0 million, \$2.8 million, \$1.8 million and \$0.5 million under U.K., Asterion, German and Norway pension plans, respectively, and minimum regulatory benefit for a Philippines legal entity of \$0.5 million.

### Amounts in Accumulated Other Comprehensive Loss Expected to be Recognized in Net Periodic Benefit Costs in 2020

The liability recorded on the Company's consolidated balance sheets representing the net unfunded status of this plan is different than the cumulative expense recognized for this plan. The difference relates to losses that are deferred and that will be amortized into periodic benefit costs in future periods. These unamortized amounts are recorded in Accumulated Other Comprehensive Loss in the consolidated balance sheets.

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As of December 31, 2019, the estimated pre-tax amount that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year will be net actuarial loss of \$1.8 million and prior service cost of \$0.1 million.

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

As of December 31, 2019 and 2018, the Company recorded actuarial losses of \$8.1 million and \$9.3 million, respectively, which is net of a deferred tax benefit of \$2.0 million and \$1.7 million, respectively.

### **Pension and Postretirement Expense**

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

	Year ended December 31,		
	2019	2018	2017
Service cost	\$ 80	\$ 82	\$ 8
Interest cost	2,448	2,350	2,288
Expected return on plan assets	(2,460)	(2,841)	(2,392)
Amortization:			
Amortization of prior service cost	(169)	9	(134)
Amortization of net (gain) loss	1,768	1,755	2,063
Net periodic benefit cost	<u>\$ 1,667</u>	<u>\$ 1,355</u>	<u>\$ 1,833</u>

### **Valuation**

The Company uses the corridor approach and projected unit credit method in the valuation of its defined benefit plans for the UK, Germany, and Norway respectively. The corridor approach defers all actuarial gains and losses resulting from variances between actual results and economic estimates or actuarial assumptions. For defined benefit pension plans, these unrecognized gains and losses are amortized when the net gains and losses exceed 10% of the greater of the market-related value of plan assets or the projected benefit obligation at the beginning of the year. The amount in excess of the corridor is amortized over 15 years. Similarly, the Company used the Projected Unit Credit Method for the German Plan, and evaluated the assumptions used to derive the related benefit obligations consisting primarily of financial and demographic assumptions including commencement of employment, biometric decrement tables, retirement age, staff turnover. The projected unit credit method determines the present value of the Company's defined benefit obligations and related service costs by taking into account each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately in building up the final obligation. Benefit is attributed to periods of service using the plan's benefit formula, unless an employee's service in later years will lead to a materially higher of benefit than in earlier years, in which case a straight-line basis is used.

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The following tables set forth the principal actuarial assumptions used to determine benefit obligation and net periodic benefit costs:

	December 31,							
	2019 UK	2018 UK	2019 Germany	2018 Germany	2019 Norway	2018 Norway	2019 Asterion	2018 Asterion
<b>Weighted-average assumptions used to determine benefit obligations:</b>								
Discount rate	2.10 %	2.80 %	1.00 %	1.90 %	2.30 %	2.60 %	1.10 %	1.80
Rate of compensation increase	N/A	N/A	N/A	N/A	2.25 %	2.75 %	2.50 %	2.50
<b>Weighted-average assumptions used to determine net periodic benefit cost:</b>								
Discount rate	2.80 %	2.50 %	1.00 %	1.90 %	2.30 %	2.60 %	1.10 %	1.80
Expected asset return	3.87 %	4.25 %	N/A %	N/A %	3.80 %	4.30 %	1.10 %	1.80
Rate of compensation increase	N/A	N/A	N/A	N/A	2.25 %	1.75 %	2.50 %	2.50

The Germany plan is an unfunded plan and therefore has no plan assets. The expected rate of return assumptions for plan assets are based mainly on historical performance achieved over a long period of time (10 to 20 years) encompassing many business and economic cycles. Adjustments, upward and downward, may be made to those historical returns to reflect future capital market expectations; these expectations are typically derived from expert advice from the investment community and surveys of peer company assumptions.

The Company assumed a weighted average expected long-term rate of return on plan assets for the overall scheme of 3.86%. The Company's long-term expected rate of return on cash is determined by reference to UK government 10 year bond yields at the balance sheet dates. The long-term expected return on bonds is determined by reference to corporate bond yields at the balance sheet date. The long-term expected rate of return on equities and diversified growth funds is based on the rate of return on UK long dated government bonds with an allowance for out-performance. The long-term expected rate of return on the liability driven investments holdings is determined by reference to UK government 20 year bond yields at the balance sheet date.

The discount rate assumption was developed considering the current yield on an investment grade non-gilt index with an adjustment to the yield to match the average duration of the index with the average duration of the plan's liabilities. The index utilized reflected the market's yield requirements for these types of investments.

The inflation rate assumption was developed considering the difference in yields between a long-term government stocks index and a long-term index-linked stocks index. This difference was modified to consider the depression of the yield on index-linked stocks due to the shortage of supply and high demand, the premium for inflation above the expectation built into the yield on fixed-interest stocks and the government's target rate for inflation (CPI) at 1.8%. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which, due to the time scale covered, may not necessarily be borne out in practice.

### **Plan Assets**

The investment objective for the plan is to earn, over moving fifteen to twenty year periods, the long-term expected rate of return, net of investment fees and transaction costs, to satisfy the benefit obligations of the plan, while at the same time maintaining sufficient liquidity to pay benefit obligations and proper expenses, and meet any other cash needs, in the short-to medium-term.

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The Company's investment policy related to the defined benefit plan is to continue to maintain investments in government gilts and highly rated bonds as a means to reduce the overall risk of assets held in the fund. No specific targeted allocation percentages have been set by category, but are set at the direction and discretion of the plan trustees. The weighted average allocation of plan assets by asset category is as follows:

	December 31,		
	2018		2017
	2019	(As Restated)	(As Restated)
U.K. and other international equities	29.9 %	27.1 %	45.0 %
U.K. government and corporate bonds	12.5	12.7	20.0
Diversified growth fund	41.3	38.9	35.0
Liability driven investments	16.3	21.3	N/A
Total	100.0 %	100.0 %	100.0 %

The following tables set forth, by category and within the fair value hierarchy, the fair value of the Company's pension assets at December 31, 2019 and 2018:

Asset Category:	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Cash	\$ 837	\$ 837	\$ —	\$ —
Equity funds:				
U.K.	13,121	—	13,121	—
Other international	8,747	—	8,747	—
Fixed income securities:				
Corporate bonds / U.K. Gilts	9,446	—	9,446	—
Other investments:				
Diversified growth fund	31,345	—	31,345	—
Liability driven investments	12,379	—	12,379	—
Total fair value	\$ 75,875	\$ 837	\$ 75,038	\$ —

Asset Category:	December 31, 2018 (As Restated)			
	Total	Level 1	Level 2	Level 3
Cash	\$ 129	\$ 129	\$ —	\$ —
Equity funds:				
U.K.	10,161	—	10,161	—
Other international	6,773	—	6,773	—
Fixed income securities:				
Corporate bonds / UK Gilts	7,987	—	7,987	—
Other investments:				
Diversified growth fund	24,488	—	24,488	—
Liability driven investments	13,414	—	13,414	—
Total fair value	\$ 62,952	\$ 129	\$ 62,823	\$ —

The Company identified an immaterial error in the footnotes to the previously issued financial statements as of December 31, 2018. In the previously issued financial statements the investments in Equities, Fixed Income Securities, and Other investments denominated in British Pounds relating to U.K. Plan as of December 31, 2018, were converted from British Pounds to United States Dollars using incorrect exchange rates. These amounts have been recomputed using appropriate exchange rate and correctly disclosed within the fair value hierarchy table above. As a result of this correction, the weighted average allocation of plan assets by asset category for the year ended December 31, 2018 is also restated.

The plan assets are categorized as follows, as applicable:

Level 1: Any asset for which a unit price is available and used without adjustment, cash balances, etc.

Level 2: Any asset for which the amount disclosed is based on market data, for example a fair value measurement based on a present value technique (where all calculation inputs are based on data).

Level 3: Other assets. For example, any asset value with a fair value adjustment made not based on available indices or data.

### **Employer Contributions**

The Company's funding is based on governmental requirements and differs from those methods used to recognize pension expense. The Company made contributions of \$2.6 million and \$2.5 million to its pension plans during the years ended December 31, 2019 and 2018 (as restated), respectively. The Company has fully funded the pension plans for 2019 based on current plan provisions. The Company expects to contribute \$2.7 million to the pension plans during 2020, based on current plan provisions.

### **Estimated Future Benefit Payments**

The estimated future pension benefit payments expected to be paid to plan participants are as follows:

<b>Year ended December 31,</b>	<b>Estimated Benefit Payments</b>
2020	\$ 1,730
2021	1,741
2022	2,070
2023	1,997
2024	2,854
<b>2025 - 2029</b>	<b>16,417</b>
<b>Total</b>	<b>\$ 26,809</b>

### **14. Commitments and Contingencies**

#### **Litigation**

The Company is, from time to time, involved in certain legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although management cannot predict the outcomes of these matters, management does not believe these actions will have a material, adverse effect on the Company's consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

#### **Appraisal Demand**

On September 21, 2017, former stockholders of SourceHOV, who owned 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 arose out of the Novitex Business Combination, and the petitioners sought, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses. During the trial the parties and their experts offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. SourceHOV argued the value was no more than \$1,633.85 per share and the petitioners argued the value was at least \$5,079.28 per share. On January 30, 2020, the Court issued its

post-trial Memorandum Opinion in the Appraisal Action, in which it found that the fair value of SourceHOV as of the date of the Novitex Business Combination was \$4,591 per share, and on March 26, 2020, the Court issued its final order and judgment awarding the petitioners \$57,698,426 inclusive of costs and interest.

On May 7, 2020, SourceHOV filed a motion for new trial in relation to share count. Following the Court's decision on the motion for new trial, SourceHOV has the right to appeal the judgment. At this time, we cannot determine whether such motion or an appeal would be successful. Per the Court's opinion, the legal rate of interest, compounded quarterly, accrues on the per share value from the Closing Date until the date of payment to petitioners.

As a result of the Appraisal Action, 4,570,734 shares of our Common Stock issued to Ex-Sigma 2 have been returned to the Company during the first quarter of 2020.

As of December 31, 2019, the Company accrued a liability of \$56.4 million for the Appraisal Action based on management's best estimate of total payment obligation including accrued interest.

#### **Contract-Related Contingencies**

The Company has certain contingent obligations that arise in the ordinary course of providing services to its customers. These contingencies are generally the result of contracts that require the Company to comply with certain performance measurements or the delivery of certain services to customers by a specified deadline. The Company believes the adjustments to the transaction price, if any, under these contract provisions will not result in a significant revenue reversal or have a material adverse effect on the Company's consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

The Company has recorded a liability for contingent consideration related to a prior acquisition. The Company adjusts this liability to fair value at each reporting period.

On February 20, 2014, the Company's subsidiary, Pangea Acquisitions, Inc. ("Pangea") acquired BancTec, Inc. ("BancTec") through a merger of BancTec and a Pangea subsidiary. The merger agreement for that transaction provided that contingent, or "earnout," consideration would be paid to former BancTec shareholders in the event Pangea's controlling shareholder realizes certain returns on its post-merger Pangea stock. A liability of \$0.7 million was recognized for the fair value of the contingent consideration on the acquisition date. The liability for the contingent consideration is adjusted to fair value at each reporting date. (Refer to Note 15 – Fair Value Measurements). The liability for the fair value of the contingent consideration was \$0.7 million as of December 31, 2019 and 2018.

On April 13, 2018, Western Standard, LLC, in its capacity as representative of the former BancTec shareholders filed suit in the Delaware Court of Chancery alleging that the above described earnout was triggered by the Novitex Business Combination and seeks payment of approximately \$8.1 million in respect of the earnout. While the Company moved to dismiss the complaint because the earnout was moot or had not been triggered, on July 24, 2019, the Company was denied its motion to dismiss. The case is scheduled for trial September 1-3, 2020 in Wilmington, Delaware, and discovery is ongoing.

#### **15. 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 December 31, 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 42.5% and 41.0% respectively, of the respective principal balance outstanding as of December 31, 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

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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. (*Refer to Note 2 - Basis of Presentation and Summary of Significant Accounting Policies*).

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

As of December 31, 2019	Carrying Amount	Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
<b>Recurring assets and liabilities:</b>					
Long-term debt	\$ 1,398,385	\$ 632,796	\$ —	\$ 632,796	\$ —
Interest rate swap liability	501	501	—	501	—
Acquisition contingent liability	\$ 721	\$ 721	\$ —	\$ —	\$ 721
<b>Nonrecurring assets and liabilities:</b>					
Goodwill	359,771	359,771	—	—	359,771
As of December 31, 2018 (As Restated)	Carrying Amount	Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
<b>Recurring assets and liabilities:</b>					
Long-term debt	\$ 1,306,423	\$ 1,316,306	\$ —	\$ 1,316,306	\$ —
Interest rate swap asset (1)	3,836	3,836	—	3,836	—
Acquisition contingent liability	\$ 721	\$ 721	\$ —	\$ —	\$ 721
<b>Nonrecurring assets and liabilities:</b>					
Goodwill	708,258	708,258	—	—	708,258

- (1) Due to an error in presentation of this table in the financial statement for the year ended December 31, 2018, the carrying amount and fair value of the interest rate swap was disclosed as zero. The table has been restated to include the carrying amount and fair value of the interest rate swap asset as at December 31, 2018.

The significant unobservable inputs used in the fair value of the Company's acquisition contingent liabilities 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:

	December 31, 2019	December 31, 2018
Balance as of January 1,	\$ 721	\$ 721
Payments/Reductions	—	—
Balance as of December 31,	<u>\$ 721</u>	<u>\$ 721</u>

During 2019 and 2018, goodwill impairment charges totaling \$348.6 million and \$44.4 million were recognized. See Note 9.

## 16. Stock-Based Compensation

At Closing, SourceHOV had 24,535 restricted stock units (“RSUs”) outstanding under its 2013 Long Term Incentive Plan (“2013 Plan”). Simultaneous with the Closing, the 2013 Plan, as well as all vested and unvested RSUs under the 2013 Plan, were assumed by Ex-Sigma (the sole equityholder of Ex-Sigma 2), an entity formed by the former SourceHOV equity holders. In accordance with U.S. GAAP, the Company incurred compensation expenses 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 were employees of the Company. All unvested RSUs under the 2013 Plan were vested by April 2019. As of December 31, 2019, there were no outstanding obligations under the 2013 Plan.

### Exela 2018 Stock Incentive Plan

On December 20, 2017, 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 December 31, 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
Granted	462,617	2.49		
Forfeited	(242,116)	5.41		
Vested	(804,493)	5.88		
Balance as of December 31, 2019	309,305	\$ 1.99	1.19	\$ 616

The majority of the RSUs that vested in the third quarter of 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 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 for the year 2019 is summarized in the following table:

	<u>Outstanding</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Weighted Average Exercise Price</u>	<u>Average Remaining Vesting Period (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding Balance as of December 31, 2018	3,570,300	\$ 2.69	\$ 6.06	2.92	\$ 9,590
Granted	2,050,600	0.94			
Exercised	—	—			
Forfeited	(683,200)	2.64			
Expired	—	—			
Outstanding Balance as of December 31, 2019	4,937,700	\$ 1.97	\$ 4.14	2.27	\$ 9,719

(1) None of the outstanding options are exercisable as of December 31, 2019.

As of December 31, 2019, there was approximately \$6.2 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 \$7.8 million, \$7.6 million, and \$6.7 million related to the 2013 Plan and 2018 Plan awards for the years ended December 31, 2019, 2018, and 2017.

## 17. Stockholders' Equity

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

### *Common Stock*

The Company is authorized to issue 1,600,000,000 shares of Common Stock, par value \$0.0001 per share. Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock or as provided for in the Director Nomination Agreements, the holders of our Common Stock possess all voting power for the election of our board of 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 our Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of our 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 the year 2019, 275,000 shares of Series A Preferred Stock were converted into 336,214 shares of Common Stock. As of December 31, 2019 and December 31, 2018, there were 153,638,836 and 152,692,140 shares of Common Stock issued, respectively. As of December 31, 2019 and December 31, 2018, there were 150,851,689 and 150,142,955 shares outstanding, respectively (inclusive in each case of the 4,570,734 shares returned to the Company in the first quarter of 2020 in connection with the Appraisal Action).

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### *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 December 31, 2019 and December 31, 2018, the Company had 4,294,233 shares and 4,569,233 shares of Series A Preferred Stock outstanding, respectively. The par value of the 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 Exela Common Stock (assuming a conversion price of \$8.80 per share and a third anniversary expected liquidation preference of \$10.75911 per the below). Due to a Fundamental Change (as defined in the Certificate of Designations, Preferences, Rights and Limitations of Series A Preferred Stock) that occurred on August 1, 2017 as described in the beneficial conversion feature section of Note 2, holders of Series A Preferred Stock were able to convert their shares prior to the six month anniversary. Based on such assumed conversion rate, approximately 11,240,869 shares of Exela Common Stock would be issuable upon conversion of all of the shares of Series A Preferred Stock at the six month anniversary of the issue date. As of December 31, 2019, 5,250,129 shares of Common Stock are issuable upon conversion of the remaining 4,294,233 shares of Series A Preferred 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 year ended December 31, 2019, this amount was \$3.3 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 \$9.4 million. The per share average of cumulative preferred dividends is \$2.2.

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 entitled to purchase up to 5,000,000 shares of its Common Stock. The Share Buyback Program has expired. The Company purchased 237,962 shares in 2019 at an average share price of \$2.51 under the Share Buyback Program. As of December 31, 2019, 2,787,147 shares had been repurchased under the Share Buyback Program and they are held in treasury stock. The Company records treasury stock using the cost method.

### *Warrants*

At December 31, 2019, there were a total of 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 which are included in the number of shares of common stock outstanding referred to above. The warrants are traded on the OTC Bulletin board as of December 31, 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 the 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 the Company sends 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.

## **18. 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 2. The rental expense for these operating leases was \$0.4 million, \$0.7 million, and \$0.7 million for the years ended December 31, 2019, 2018, and 2017, respectively.

### *Consulting Agreements*

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 approximately \$0.2 million, \$0.2 million and \$0.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company received consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly-owned and controlled by Vik Negi, the Company's 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 consulting arrangement with Shadow Pond, LLC terminated and Mr. Negi continues to provide services as an employee of the Company. For the year ended December 31, 2019, the Company incurred no expenses for these services. The expense recognized for these services was approximately \$0.1 million and \$0.5 million for the years ended December 31, 2018 and 2017, respectively.

### *Relationship with HandsOn Global Management*

The Company incurred management fees to HGM, SourceHOV's former owner, of \$6.0 million for the year ended December 31, 2017. The contract with HGM was terminated upon consummation of the Novitex Business Combination, and no fees were payable after July 12, 2017.

The Company incurred reimbursable travel expenses to HGM of \$0.6 million, less than \$0.1 million and \$0.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

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 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 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 Company incurred fees relating to these agreements of \$1.0 million, \$0.7 million, and \$0.6 million for the years ended December 31, 2019, 2018 and 2017, respectively.

During 2017, the Company incurred contract cancellation and advising fees to HGM of \$23.0 million, \$10.0 million of which was paid by the issuance of 1,250,000 shares of Common Stock, relating to the Novitex Business Combination. No such fees were incurred in 2019 and 2018.

*Relationship with HOV Services, Ltd.*

HOV Services, Ltd. provides the Company data capture and technology services. The expense recognized for these services was approximately \$1.5 million, \$1.6 million, and \$1.7 million for the years ended December 31, 2019, 2018, and 2017, respectively. These expenses are included in cost of revenue in the consolidated statements of operations.

*Relationship with Apollo Global Management, Inc.*

The Company provides services to and receives services from certain Apollo Global Management, Inc. ("Apollo") affiliated companies. Funds managed by Apollo held the second largest position in our Common Stock following the Novitex Business Combination and had the right to designate two of the Company's directors pursuant to a director nomination agreement. Apollo has announced that its affiliated funds ceased being shareholders on March 11, 2020.

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 \$0.6 million, \$0.6 million and \$0.3 million under this agreement for the years ended December 31, 2019, 2018 and 2017, respectively, in our consolidated statements of operations.

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 \$4.4 million, \$4.1 million and \$1.2 million for years ended December 31, 2019, 2018 and 2017.

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 \$1.2 million, \$0.6 million and less than \$0.1 million in our consolidated statements of operations from ADT LLC under this master services agreement for the years ended December 31, 2019, 2018 and 2017.

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 \$5.4 million and \$5.7 million for the year ended December 31, 2019 and 2018 and cost of revenue of less than \$0.1 million for each of the years ended December 31, 2019 and 2018 from Diamond Resorts Centralized Services Company under this master services agreement. No revenue or cost of revenue was recognized in 2017 under this 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 years ended December 31, 2019, 2018 and 2017 there were related party expenses of \$1.0 million, \$0.7 million and \$0.3 million, respectively, for this service.

In June 2002, one of the Company's subsidiaries entered into a systems purchase and license agreement with Evertec Group LLC ("Evertec"). Evertec is controlled by investment funds affiliated with Apollo. Pursuant to the agreement, the Company provided system and ongoing maintenance services as detailed in the agreement. In August,

2016, another subsidiary of the Company entered into an equipment maintenance agreement with Evertec. Pursuant to the equipment maintenance agreement, the Company provides preventive and corrective maintenance service to selected equipment listed in the agreement. The Company recognized revenue of \$0.3 million, \$0.3 million and \$0.1 million under these agreements for the year ended December 31, 2019, 2018 and 2017, respectively, in our consolidated statements of operations.

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 December 31, 2019, total finance lease liability of the Company included \$0.9 million pertaining to this lease.

*Relationship with Ex-Sigma and Ex-Sigma 2*

The Company made payments totaling \$5.6 million to Ex-Sigma 2 during the fourth quarter of 2019. At the time of the payments, they were understood to be a reimbursement of fees and expenses relating to the Appraisal Shares under the terms of the Consent, Waiver and Amendment. At Ex-Sigma 2's request such amount was remitted to pay down a portion of the Margin Loan on behalf of Ex-Sigma 2. Upon further review, it was determined that such expense reimbursement should be considered a reimbursement of the principal and interest on the Margin Loan and thus not subject to reimbursement under the Consent, Waiver and Amendment. These payments were not authorized or approved in advance by the Audit Committee.

Separately, the Company determined it was obligated to reimburse premium payments of \$6.9 million made by Ex-Sigma 2 on the Margin Loan under the terms of the Consent, Waiver and Amendment. Pursuant to a written settlement agreement entered into in June 2020, Ex-Sigma, SourceHOV and the Company agreed that the \$5.6 million of payments made during the fourth quarter of 2019 would be accepted to fully discharge the Company's obligation to reimburse Ex-Sigma 2 for the \$6.9 million of premium payments. The Company recorded related party expenses of \$1.7 million and \$5.2 million during the years ended December 31, 2019 and 2018, respectively, related to the Company's obligation to reimburse Ex-Sigma 2 for premium payments on the Margin Loan.

The Company incurred reimbursable expenses to Ex-Sigma 2 of \$2.1 million and \$2.4 million for the years ended December 31, 2019 and 2018, respectively, in connection with secondary offerings of shares by Ex-Sigma 2, the proceeds of which were used to repay the Margin Loan. The reimbursement payments were made in the second half of 2019.

The Company incurred reimbursable expenses to Ex-Sigma 2 of \$0.6 million and \$0.4 million for the years ended December 31, 2019 and 2018, respectively, in connection with legal expenses of Ex-Sigma 2.

The premium payments, secondary offering fees and legal expenses were reimbursed pursuant to the terms of the Consent, Waiver and Amendment. These expenses are included in related party expense in the consolidated statements of operations.

In addition, in October 2019, the Company awarded \$6.3 million in bonuses to certain employees who were also indirect equity holders of Ex-Sigma 2 through their holdings of Ex-Sigma that had been issued upon the vesting of RSUs granted under the 2013 Plan. Ex-Sigma 2 pledged all of its capital stock in the Company as collateral for the Margin Loan. The Company remitted the net amount of \$4.6 million (after withholding payroll taxes of \$1.7 million) toward the outstanding balance on the Margin Loan in order to benefit such employees.

The bonus amount remitted by the Company was originally determined by Ex-Sigma management based on such employees' over-all equity ownership of Ex-Sigma. Following payment in full of the Margin Loan, during the first quarter of 2020, Ex-Sigma 2 distributed the shares of the Company's capital stock held by it to its sole equity holder, Ex-Sigma, who distributed the shares to its equity holders, including the bonus recipients. These bonus payments were not processed or approved according to the Company's internal control policies. In May 2020, each employee that received

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the bonus countersigned an authorization letter confirming their authorization for the Company to remit the amount of their net bonus to pay a portion of the Margin Loan.

The Company recorded the \$6.3 million bonus payments as compensation expense in selling, general and administrative expenses in the accompanying statements of operations in the fourth quarter of 2019.

*Payable and Receivable Balances with Affiliates*

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

	December 31, 2019		December 31, 2018 (As Restated)
	Receivable	Payable	Payable
HOV Services, Ltd	\$ 601	\$ —	\$ 405
Rule 14	—	250	127
HGM	115	—	6,998
Apollo affiliated company	—	202	205
Oakana	—	1	—
Ex-Sigma 2	—	1,287	7,628
	<b>\$ 716</b>	<b>\$ 1,740</b>	<b>\$ 15,363</b>

**19. 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, approaches 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.

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The chief operating decision maker reviews segment profit to evaluate operating segment performance and determine how to allocate resources to operating segments. "Segment profit" is defined as revenue less cost of revenue (exclusive of depreciation and amortization). 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. A reconciliation of segment profit to net loss before income taxes is presented below.

	Year ended December 31, 2019			
	ITPS	HS	LLPS	Total
Revenue	\$ 1,234,284	\$ 256,721	\$ 71,332	\$ 1,562,337
Cost of revenue (exclusive of depreciation and amortization)	1,001,655	180,045	43,035	1,224,735
<b>Segment profit</b>	<b>232,629</b>	<b>76,676</b>	<b>28,297</b>	<b>337,602</b>
Selling, general and administrative expenses (exclusive of depreciation and amortization)				198,864
Depreciation and amortization				100,903
Impairment of goodwill and other intangible assets				349,557
Related party expense				9,501
Interest expense, net				163,449
Debt modification and extinguishment costs				1,404
Sundry expense, net				969
Other expense, net				14,429
<b>Net loss before income taxes</b>				<b>\$ (501,474)</b>

	Year ended December 31, 2018 (As Restated)			
	ITPS	HS	LLPS	Total
Revenue	\$1,273,647	\$228,015	\$84,560	\$1,586,222
Cost of revenue (exclusive of depreciation and amortization)	1,010,320	151,877	51,206	1,213,403
<b>Segment profit</b>	<b>263,327</b>	<b>76,138</b>	<b>33,354</b>	<b>372,819</b>
Selling, general and administrative expenses (exclusive of depreciation and amortization)				184,908
Depreciation and amortization				138,077
Impairment of goodwill and other intangible assets				48,127
Related party expense				12,403
Interest expense, net				155,991
Debt modification and extinguishment costs				1,067
Sundry income, net				(3,271)
Other income, net				(3,030)
<b>Net loss before income taxes</b>				<b>\$ (161,453)</b>

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	Year ended December 31, 2017 (As Restated)			
	ITPS	HS	LLPS	Total
Revenue	\$ 820,677	\$ 233,595	\$ 91,619	\$ 1,145,891
Cost of revenue (exclusive of depreciation and amortization)	619,694	152,290	55,560	827,544
<b>Segment profit</b>	<b>200,983</b>	<b>81,305</b>	<b>36,059</b>	<b>318,347</b>
Selling, general and administrative expenses (exclusive of depreciation and amortization)				220,955
Depreciation and amortization				98,890
Impairment of goodwill and other intangible assets				69,437
Related party expense				33,431
Interest expense, net				129,676
Debt modification and extinguishment costs				35,512
Sundry expense, net				2,295
Other income, net				(1,297)
<b>Net loss before income taxes</b>				<b>\$ (270,552)</b>

The following table presents revenues by principal geographic area where the Company's customers are located for the years ended December 31, 2019, 2018, and 2017.

	Years ended December 31,		
	2019	2018 (As Restated)	2017 (As Restated)
United States	\$ 1,286,678	\$ 1,347,516	\$ 1,000,827
EMEA	248,466	211,314	130,098
Other	27,193	27,392	14,966
<b>Total Consolidated Revenue</b>	<b>\$ 1,562,337</b>	<b>\$ 1,586,222</b>	<b>\$ 1,145,891</b>

## 20. Unaudited Quarterly Financial Data

The information for the first three quarters of fiscal 2019 and for all fiscal 2018 quarters has been restated to correct the errors described in Note 3, *Restatement of Previously Issued Financial Statements*.

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The following table presents the quarterly information for fiscal 2019 (dollars in thousands, except per share data):

	<b>Q1 2019 (As Restated)</b>	<b>Q2 2019 (As Restated)</b>	<b>Q3 2019 (As Restated)</b>	<b>Q4 2019</b>
<b>Revenue:</b>				
ITPS	\$ 325,172	\$ 309,840	\$ 292,607	\$ 306,665
HS	61,343	63,440	62,132	69,806
LLPS	17,842	17,569	18,806	17,115
Total Revenue	<u>404,357</u>	<u>390,849</u>	<u>373,545</u>	<u>393,586</u>
<b>Cost of revenue:</b>				
ITPS	259,272	249,589	241,867	250,927
HS	40,341	43,353	42,717	53,634
LLPS	10,988	10,889	10,861	10,297
Cost of revenue (exclusive of depreciation and amortization)	<u>310,601</u>	<u>303,831</u>	<u>295,445</u>	<u>314,858</u>
Selling, general and administrative expenses (exclusive of depreciation and amortization)	49,677	51,162	48,347	49,678
Depreciation and amortization	26,624	24,779	25,079	24,421
Impairment of goodwill and other intangible assets	—	—	97,158	252,399
Related party expense	998	5,331	1,430	1,742
<b>Operating income (loss)</b>	<u>16,457</u>	<u>5,746</u>	<u>(93,914)</u>	<u>(249,512)</u>
<b>Other expense (income), net:</b>				
Interest expense, net	39,701	39,959	40,573	43,216
Debt modification and extinguishment costs	—	1,404	—	—
Sundry expense (income), net	2,715	(1,311)	165	(600)
Other income, net	1,493	2,527	406	10,003
<b>Net loss before income taxes</b>	<u>(27,452)</u>	<u>(36,833)</u>	<u>(135,058)</u>	<u>(302,131)</u>
Income tax (expense) benefit	(4,720)	(4,738)	3,769	(1,953)
<b>Net loss</b>	<u>(32,172)</u>	<u>(41,571)</u>	<u>(131,289)</u>	<u>(304,084)</u>
Cumulative dividends for Series A Preferred Stock	(914)	(914)	(884)	(597)
<b>Net loss attributable to common stockholders</b>	<u>\$ (33,086)</u>	<u>\$ (42,485)</u>	<u>\$ (132,173)</u>	<u>\$ (304,681)</u>
Weighted average outstanding common shares (Refer to Net Loss per Share discussion in Note 2)	<u>145,572,221</u>	<u>145,466,193</u>	<u>145,636,749</u>	<u>146,161,353</u>
<b>Earnings per share:</b>				
Basic and diluted	\$ (0.23)	\$ (0.29)	\$ (0.91)	\$ (2.09)

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The following table presents the quarterly information for fiscal 2018 (dollars in thousands, except per share data):

	<b>Q1 2018 (As Restated)</b>	<b>Q2 2018 (As Restated)</b>	<b>Q3 2018 (As Restated)</b>	<b>Q4 2018 (As Restated)</b>
<b>Revenue:</b>				
ITPS	\$ 311,936	\$ 330,131	\$ 307,313	\$ 324,267
HS	58,632	56,314	56,776	56,293
LLPS	22,599	23,937	18,941	19,083
Total Revenue	393,167	410,382	383,030	399,643
<b>Cost of revenue:</b>				
ITPS	246,042	262,066	247,021	255,191
HS	35,192	39,538	37,139	40,008
LLPS	13,663	13,563	12,525	11,455
Cost of revenue (exclusive of depreciation and amortization)	294,897	315,167	296,685	306,654
Selling, general and administrative expenses (exclusive of depreciation and amortization)	45,519	46,378	44,897	48,114
Depreciation and amortization	36,239	34,744	33,410	33,684
Impairment of goodwill and other intangible assets				48,127
Related party expense	1,181	6,783	775	3,664
<b>Operating income (loss)</b>	15,331	7,310	7,263	(40,600)
<b>Other expense (income), net:</b>				
Interest expense, net	38,676	39,229	39,087	38,999
Debt modification and extinguishment costs	—	—	1,067	—
Sundry expense (income), net	229	(2,122)	(2,283)	905
Other income, net	(3,621)	(907)	(1,069)	2,567
<b>Net loss before income taxes</b>	(19,953)	(28,890)	(29,539)	(83,071)
Income tax (expense) benefit	(4,025)	(1,619)	733	(3,442)
<b>Net loss</b>	(23,978)	(30,509)	(28,806)	(86,513)
Cumulative dividends for Series A Preferred Stock	(914)	(914)	(914)	(914)
<b>Net loss attributable to common stockholders</b>	\$ (24,892)	\$ (31,423)	\$ (29,720)	\$ (87,427)
Weighted average outstanding common shares (Refer to Net Loss per Share discussion in Note 2)	147,569,383	147,688,855	147,092,936	147,773,089
<b>Earnings per share:</b>				
Basic and diluted	\$ (0.17)	\$ (0.21)	\$ (0.20)	\$ (0.59)

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The restated quarterly Consolidated Balance Sheets for the first three quarters of fiscal 2019 and fiscal 2018 are presented below:

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(in thousands of United States dollars except share and per share amounts)  
(Unaudited)

	As of March 31, 2019			As of March 31, 2018			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
<b>Assets</b>							
<i>Current assets</i>							
Cash and cash equivalents	\$ 8,262	\$ 297	\$ 8,559	\$ 26,882	\$ 2,128	\$ 29,010	c
Restricted cash	4,998	(297)	4,701	12,549	(2,128)	10,421	c
Accounts receivable, net	278,064	—	278,064	238,680	—	238,680	
Inventories, net	16,321	—	16,321	13,519	—	13,519	
Prepaid expenses and other current assets	25,330	(78)	25,252	27,520	—	27,520	c
<b>Total current assets</b>	<b>332,975</b>	<b>(78)</b>	<b>332,897</b>	<b>319,150</b>	—	<b>319,150</b>	
Property, plant and equipment, net	129,621	—	129,621	132,870	—	132,870	
Operating lease right-of-use assets, net	100,727	—	100,727	—	—	—	
Goodwill	708,285	—	708,285	747,325	—	747,325	
Intangible assets, net	397,412	(13,732)	383,680	438,929	(14,678)	424,251	b
Deferred income tax assets	16,202	120	16,322	9,171	796	9,967	c
Other noncurrent assets	17,667	—	17,667	18,490	—	18,490	
<b>Total assets</b>	<b>\$ 1,702,889</b>	<b>\$ (13,690)</b>	<b>\$ 1,689,199</b>	<b>\$ 1,665,935</b>	<b>\$ (13,882)</b>	<b>\$ 1,652,053</b>	
<i>Liabilities and Stockholders' Equity (Deficit)</i>							
<i>Current liabilities</i>							
Accounts payables	\$ 90,924	\$ —	\$ 90,924	\$ 77,194	\$ —	\$ 77,194	
Related party payables	6,184	7,628	13,812	14,172	—	14,172	c
Income tax payable	4,898	—	4,898	6,967	—	6,967	
Accrued liabilities	63,138	41,880	105,018	31,805	38,412	70,217	a, c
Accrued compensation and benefits	57,961	(2,216)	55,745	49,738	(2,459)	47,279	c
Accrued interest	23,928	—	23,928	23,795	—	23,795	
Customer deposits	28,410	—	28,410	36,542	—	36,542	
Deferred revenue	19,966	—	19,966	15,933	—	15,933	
Obligation for claim payment	46,063	—	46,063	56,554	—	56,554	
Current portion of finance lease liabilities	15,961	—	15,961	14,785	—	14,785	
Current portion of operating lease liabilities	27,368	—	27,368	—	—	—	
Current portion of long-term debts	32,821	—	32,821	21,170	—	21,170	
<b>Total current liabilities</b>	<b>417,622</b>	<b>47,292</b>	<b>464,914</b>	<b>348,655</b>	<b>35,953</b>	<b>384,608</b>	
Long-term debt, net of current maturities	1,336,152	—	1,336,152	1,277,029	—	1,277,029	
Finance lease liabilities, net of current portion	27,231	—	27,231	26,474	—	26,474	
Pension liabilities	25,514	2,216	27,730	26,081	2,459	28,540	c
Deferred income tax liabilities	12,439	2	12,441	5,478	—	5,478	c
Long-term income tax liabilities	3,158	—	3,158	3,470	—	3,470	
Operating lease liabilities, net of current portion	78,290	—	78,290	—	—	—	
Other long-term liabilities	6,747	—	6,747	13,879	—	13,879	
<b>Total liabilities</b>	<b>1,907,153</b>	<b>49,510</b>	<b>1,956,663</b>	<b>1,701,066</b>	<b>38,412</b>	<b>1,739,478</b>	
<i>Commitments and Contingencies</i>							
<i>Shareholders' equity (deficit)</i>							
Common Stock	15	—	15	15	—	15	
Preferred Stock	1	—	1	1	—	1	
Additional paid-in capital	482,018	(36,566)	445,452	482,018	(36,566)	445,452	
Treasury stock	(10,342)	—	(10,342)	(249)	—	(249)	
Equity-based compensation	44,529	—	44,529	35,044	—	35,044	
Accumulated deficit	(707,787)	(26,776)	(734,563)	(540,041)	(15,703)	(555,744)	
Accumulated other comprehensive loss:							
Foreign currency translation adjustment	(3,173)	142	(3,031)	(462)	(25)	(487)	
Unrealized pension actuarial losses, net of tax	(9,525)	—	(9,525)	(11,457)	—	(11,457)	
Total accumulated other comprehensive loss	(12,698)	142	(12,556)	(11,919)	(25)	(11,944)	
<b>Total stockholders' equity (deficit)</b>	<b>(204,264)</b>	<b>(63,200)</b>	<b>(267,464)</b>	<b>(35,131)</b>	<b>(52,294)</b>	<b>(87,425)</b>	
<b>Total liabilities and equity</b>	<b>\$ 1,702,889</b>	<b>\$ (13,690)</b>	<b>\$ 1,689,199</b>	<b>\$ 1,665,935</b>	<b>\$ (13,882)</b>	<b>\$ 1,652,053</b>	

**As of March 31, 2019**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$41.5 million to accrued liabilities at March 31, 2019.

- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$13.7 million of decrease to intangible assets, net at March 31, 2019.
- (c) Other Misstatement Adjustments:

Expense Reimbursement Adjustments: The correction of this misstatement resulted in an increase of \$7.6 million to related party payables.

Other Adjustments - Corrections to other misstatements were as follows: (i) Reclassification of operating accounts that are not restricted resulted in an increase of \$0.3 million in cash and cash equivalents and decrease of \$0.3 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of \$2.2 million to Accrued compensation and benefits and an increase of \$2.2 million to pension liabilities. (iii) Correction of non-accrual of legal expenses related to 2019 resulted in an increase of \$0.4 million to accrued liabilities.

**As of March 31, 2018**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$38.4 million to accrued liabilities at March 31, 2018.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$14.7 million of decrease to intangible assets, net at March 31, 2018.
- (c) Other Misstatement Adjustments:

Other Adjustments - Corrections to other misstatements were as follows: (i) Reclassification of operating accounts that are not restricted resulted in an increase of \$2.1 million in cash and cash equivalents and decrease of \$2.1 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of \$2.5 million to Accrued compensation and benefits and an increase of \$2.5 million to pension liabilities. (iii) The correction of all misstatements resulted in an increase of \$0.8 million to deferred income tax assets.

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**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(in thousands of United States dollars except share and per share amounts)  
(Unaudited)

	As of June 30, 2019			As of June 30, 2018			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
<b>Assets</b>							
<i>Current assets</i>							
Cash and cash equivalents	\$ 18,449	\$ (43)	\$ 18,406	\$ 55,783	\$ 1,178	\$ 56,961	c
Restricted cash	4,977	—	5,020	31,088	(1,178)	29,910	c
Accounts receivable, net	266,660	—	266,660	262,260	—	262,260	
Related party receivables	206	—	206	—	—	—	
Inventories, net	16,735	—	16,735	15,088	—	15,088	
Prepaid expenses and other current assets	23,791	(78)	23,713	24,108	—	24,108	c
<b>Total current assets</b>	<b>330,818</b>	<b>(78)</b>	<b>330,740</b>	<b>388,327</b>	<b>—</b>	<b>388,327</b>	
Property, plant and equipment, net	125,018	—	125,018	135,585	—	135,585	
Operating lease right-of-use assets, net	96,498	—	96,498	—	—	—	
Goodwill	708,246	—	708,246	748,708	—	748,708	
Intangible assets, net	387,775	(15,771)	372,004	419,725	(14,268)	405,457	b
Deferred income tax assets	16,181	120	16,301	15,280	796	16,076	c
Other noncurrent assets	14,714	—	14,714	21,276	—	21,276	
<b>Total assets</b>	<b>\$ 1,679,250</b>	<b>\$ (15,729)</b>	<b>\$ 1,663,521</b>	<b>\$ 1,728,901</b>	<b>\$ (13,472)</b>	<b>\$ 1,715,429</b>	
<b>Liabilities and Stockholders' Equity (Deficit)</b>							
<i>Current liabilities</i>							
Accounts payables	\$ 99,089	\$ —	\$ 99,089	\$ 86,304	\$ —	\$ 86,304	
Related party payables	238	11,433	11,671	11,987	5,036	17,023	c
Income tax payable	2,525	—	2,525	5,385	—	5,385	
Accrued liabilities	59,487	42,778	102,265	40,737	39,114	79,851	a, c
Accrued compensation and benefits	52,493	(2,275)	50,218	50,905	(2,496)	48,409	c
Accrued interest	48,935	—	48,935	48,885	—	48,885	
Customer deposits	28,914	—	28,914	36,997	—	36,997	
Deferred revenue	19,428	—	19,428	20,654	—	20,654	
Obligation for claim payment	41,496	—	41,496	94,233	—	94,233	
Current portion of finance lease liabilities	15,897	—	15,897	16,568	—	16,568	
Current portion of operating lease liabilities	27,444	—	27,444	—	—	—	
Current portion of long-term debts	38,929	—	38,929	16,299	3,500	19,799	
<b>Total current liabilities</b>	<b>434,875</b>	<b>51,936</b>	<b>486,811</b>	<b>428,954</b>	<b>45,154</b>	<b>474,108</b>	
Long-term debt, net of current maturities	1,331,898	—	1,331,898	1,281,697	(3,500)	1,278,197	
Finance lease liabilities, net of current portion	25,772	—	25,772	25,193	—	25,193	
Pension liabilities	24,866	2,275	27,141	30,471	2,496	32,967	c
Deferred income tax liabilities	15,896	2	15,898	5,016	—	5,016	c
Long-term income tax liabilities	2,842	—	2,842	3,470	—	3,470	
Operating lease liabilities, net of current portion	74,290	—	74,290	—	—	—	
Other long-term liabilities	7,882	—	7,882	16,208	—	16,208	
<b>Total liabilities</b>	<b>1,918,321</b>	<b>54,213</b>	<b>1,972,534</b>	<b>1,791,009</b>	<b>44,150</b>	<b>1,835,159</b>	
Commitments and Contingencies							
Shareholders' equity (deficit)							
Common Stock	15	—	15	15	—	15	
Preferred Stock	1	—	1	1	—	1	
Additional paid-in capital	482,018	(36,566)	445,452	482,018	(36,566)	445,452	
Treasury stock	(10,949)	—	(10,949)	(3,728)	—	(3,728)	
Equity-based compensation	47,190	—	47,190	36,980	—	36,980	
Accumulated deficit	(742,616)	(33,518)	(776,134)	(565,222)	(21,031)	(586,253)	
Accumulated other comprehensive loss:							
Foreign currency translation adjustment	(5,461)	142	(5,319)	(1,341)	(25)	(1,366)	
Unrealized pension actuarial losses, net of tax	(9,269)	—	(9,269)	(10,831)	—	(10,831)	
Total accumulated other comprehensive loss	(14,730)	142	(14,588)	(12,172)	(25)	(12,197)	
<b>Total stockholders' equity (deficit)</b>	<b>(239,071)</b>	<b>(69,942)</b>	<b>(309,013)</b>	<b>(62,108)</b>	<b>(57,622)</b>	<b>(119,730)</b>	
<b>Total liabilities and equity</b>	<b>\$ 1,679,250</b>	<b>\$ (15,729)</b>	<b>\$ 1,663,521</b>	<b>\$ 1,728,901</b>	<b>\$ (13,472)</b>	<b>\$ 1,715,429</b>	

**As of June 30, 2019**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$42.3 million to accrued liabilities at June 30, 2019.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$15.8 million of decrease to intangible assets, net at June 30, 2019.

(c) Other Misstatement Adjustments:

Expense Reimbursement Adjustments: The correction of this misstatement resulted in an increase of \$11.4 million to related party payables.

Other Adjustments - Corrections to other misstatements were as follows: (i) Reclassification of operating accounts that are not restricted resulted in a decrease of \$0.04 million in cash and cash equivalents and increase of \$0.04 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of \$2.3 million to Accrued compensation and benefits and an increase of \$2.3 million to pension liabilities. (iii) Correction of non-accrual of legal expenses related to 2019 resulted in an increase of \$0.5 million to accrued liabilities.

**As of June 30, 2018**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$39.1 million to accrued liabilities at June 30, 2018.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$14.3 million of decrease to intangible assets, net at June 30, 2018.
- (c) Other Misstatement Adjustments:

Expense Reimbursement Adjustments: The correction of this misstatement resulted in an increase of \$5.0 million to related party payables.

Other Adjustments - Corrections to other misstatements were as follows: (i) Reclassification of operating accounts that are not restricted resulted in an increase of \$1.2 million in cash and cash equivalents and decrease of \$1.2 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of \$2.5 million to Accrued compensation and benefits and an increase of \$2.5 million to pension liabilities. (iii) Reclassification of debt between current and long-term resulted in an increase of \$3.5 million to current portion of long-term debts and a decrease of \$3.5 million to long-term debt, net of current maturities. (iv) The correction of all misstatements resulted in an increase of \$0.8 million to deferred income tax assets.

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**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(in thousands of United States dollars except share and per share amounts)  
(Unaudited)

	As of September 30, 2019			As of September 30, 2018			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
<b>Assets</b>							
Current assets							
Cash and cash equivalents	\$ 10,312	\$ (954)	\$ 9,358	\$ 40,692	\$ 514	\$ 41,206	c
Restricted cash	4,913	954	5,867	8,955	(514)	8,441	c
Accounts receivable, net	260,438	—	260,438	253,986	—	253,986	
Related party receivables	42	—	42	—	—	—	
Inventories, net	16,996	—	16,996	16,122	—	16,122	
Prepaid expenses and other current assets	22,695	(78)	22,617	26,933	—	26,933	c
<b>Total current assets</b>	<b>315,396</b>	<b>(78)</b>	<b>315,318</b>	<b>346,688</b>	—	<b>346,688</b>	
Property, plant and equipment, net	119,469	—	119,469	131,156	—	131,156	
Operating lease right-of-use assets, net	93,352	—	93,352	—	—	—	
Goodwill	609,458	2,524	611,982	749,762	—	749,762	
Intangible assets, net	374,445	(17,331)	357,114	398,280	(13,385)	384,895	b
Deferred income tax assets	15,830	120	15,950	14,810	796	15,606	c
Other noncurrent assets	13,557	—	13,557	21,650	—	21,650	
<b>Total assets</b>	<b>\$ 1,541,507</b>	<b>\$ (14,765)</b>	<b>\$ 1,526,742</b>	<b>\$ 1,662,346</b>	<b>\$ (12,589)</b>	<b>\$ 1,649,757</b>	
<b>Liabilities and Stockholders' Equity (Deficit)</b>							
Current liabilities							
Accounts payables	\$ 93,815	\$ —	\$ 93,815	\$ 90,673	\$ —	\$ 90,673	
Related party payables	274	9,933	10,207	10,756	5,036	15,792	c
Income tax payable	—	—	—	5,422	—	5,422	
Accrued liabilities	60,994	43,103	104,097	41,397	39,862	81,259	a
Accrued compensation and benefits	51,819	(2,183)	49,636	54,975	(2,511)	52,464	c
Accrued interest	24,602	—	24,602	23,845	—	23,845	
Customer deposits	30,161	—	30,161	39,419	—	39,419	
Deferred revenue	17,368	—	17,368	18,084	—	18,084	
Obligation for claim payment	43,267	—	43,267	52,889	—	52,889	
Current portion of finance lease liabilities	15,172	—	15,172	15,926	—	15,926	
Current portion of operating lease liabilities	26,604	—	26,604	—	—	—	
Current portion of long-term debts	37,237	—	37,237	20,062	—	20,062	
<b>Total current liabilities</b>	<b>401,313</b>	<b>50,853</b>	<b>452,166</b>	<b>373,448</b>	<b>42,387</b>	<b>415,835</b>	
Long-term debt, net of current maturities	1,367,583	—	1,367,583	1,307,884	—	1,307,884	
Finance lease liabilities, net of current portion	24,159	—	24,159	22,945	—	22,945	
Pension liabilities	26,667	2,183	28,850	30,376	2,511	32,887	c
Deferred income tax liabilities	12,677	2	12,679	2,115	—	2,115	c
Long-term income tax liabilities	2,892	—	2,892	3,470	—	3,470	
Operating lease liabilities, net of current portion	71,661	—	71,661	—	—	—	
Other long-term liabilities	7,866	—	7,866	15,307	—	15,307	
<b>Total liabilities</b>	<b>\$ 1,914,818</b>	<b>\$ 53,038</b>	<b>\$ 1,967,856</b>	<b>\$ 1,755,545</b>	<b>\$ 44,898</b>	<b>\$ 1,800,443</b>	
Commitments and Contingencies							
Shareholders' equity (deficit)							
Common Stock	15	—	15	15	—	15	
Preferred Stock	1	—	1	1	—	1	
Additional paid-in capital	482,018	(36,566)	445,452	482,018	(36,566)	445,452	
Treasury stock	(10,949)	—	(10,949)	(5,148)	—	(5,148)	
Equity-based compensation	48,411	—	48,411	38,601	—	38,601	
Accumulated deficit	(876,043)	(31,379)	(907,422)	(594,162)	(20,896)	(615,058)	
Accumulated other comprehensive loss:							
Foreign currency translation adjustment	(7,786)	142	(7,644)	(3,833)	(25)	(3,858)	
Unrealized pension actuarial losses, net of tax	(8,978)	—	(8,978)	(10,691)	—	(10,691)	
Total accumulated other comprehensive loss	(16,764)	142	(16,622)	(14,524)	(25)	(14,549)	
<b>Total stockholders' equity (deficit)</b>	<b>(373,311)</b>	<b>(67,803)</b>	<b>(441,114)</b>	<b>(93,199)</b>	<b>(57,487)</b>	<b>(150,686)</b>	
<b>Total liabilities and equity</b>	<b>\$ 1,541,507</b>	<b>\$ (14,765)</b>	<b>\$ 1,526,742</b>	<b>\$ 1,662,346</b>	<b>\$ (12,589)</b>	<b>\$ 1,649,757</b>	

**As of September 30, 2019**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$43.1 million to accrued liabilities at September 30, 2019.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$17.3 million of decrease to intangible assets, net at September 30, 2019.

(c) Other Misstatement Adjustments:

Expense Reimbursement Adjustments: The correction of this misstatement resulted in an increase of \$9.9 million to related party payables.

Other Adjustments - Corrections to other misstatements were as follows: (i) Reclassification of operating accounts that are not restricted resulted in a decrease of \$1.0 million in cash and cash equivalents and increase of \$1.0 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of \$2.2 million to Accrued compensation and benefits and an increase of \$2.2 million to pension liabilities. (iii) Correction of goodwill impairment charges resulted in an increase of \$2.5 million to goodwill.

**As of September 30, 2018**

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$39.9 million to accrued liabilities at September 30, 2018.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$13.4 million of decrease to intangible assets, net at September 30, 2018.

(c) Other Misstatement Adjustments:

Expense Reimbursement Adjustments: The correction of this misstatement resulted in an increase of \$5.0 million to related party payables for non-accrual of expenses related to reimbursement obligations under the Consent, Waiver and Amendment incurred by Ex-Sigma 2 required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment.

Other Adjustments - Corrections to other misstatements were as follows: (i) Reclassification of operating accounts that are not restricted resulted in an increase of \$0.5 million in cash and cash equivalents and decrease of \$0.5 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of \$2.5 million to Accrued compensation and benefits and an increase of \$2.5 million to pension liabilities. (iii) The correction of all misstatements resulted in an increase of \$0.8 million to deferred income tax assets.

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The restated quarterly Consolidated Statements of Operations for the first three quarters of fiscal 2019 and each of the quarterly periods in fiscal 2018 are presented below:

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statement of Operations**  
(in thousands of United States dollars)  
(Unaudited)

	For the Three Months Ended March 31, 2019			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	
Revenue	\$ 403,765	\$ 592	\$ 404,357	c
Cost of revenue (exclusive of depreciation and amortization)	306,882	3,719	310,601	b, c
Selling, general and administrative expenses (exclusive of depreciation and amortization)	49,949	(272)	49,677	c
Depreciation and amortization	28,020	(1,396)	26,624	b
Related party expense	994	4	998	c
<b>Operating loss</b>	<b>17,920</b>	<b>(1,463)</b>	<b>16,457</b>	
<b>Other expense (income), net:</b>				
Interest expense, net	38,899	802	39,701	a
Sundry expense (income), net	2,531	184	2,715	c
Other expense (income), net	1,677	(184)	1,493	c
<b>Net loss before income taxes</b>	<b>(25,187)</b>	<b>(2,265)</b>	<b>(27,452)</b>	
Income tax (expense) benefit	(4,720)	—	(4,720)	
<b>Net loss</b>	<b>\$ (29,907)</b>	<b>\$ (2,265)</b>	<b>\$ (32,172)</b>	
Cumulative dividends for Series A Preferred Stock	(914)	—	(914)	
<b>Net loss attributable to common stockholders</b>	<b>\$ (30,821)</b>	<b>\$ (2,265)</b>	<b>\$ (33,086)</b>	

**For the three months ended March 31, 2019**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$0.8 million to interest expense for the three months ended March 31, 2019.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$3.1 million of increase to cost of revenue and a decrease of \$1.4 million to depreciation and amortization for the three months ended March 31, 2019.
- (c) Other Misstatement Adjustments:

**Revenue Recognition Adjustments:** The correction of this misstatement resulted in an increase of \$0.6 million to revenue and an increase of \$0.6 million to cost of revenue for the three months ended March 31, 2019.

**Other Adjustments - Corrections to other misstatements were as follows:** (i) Correction of non-accrual of legal expenses resulted in a decrease of \$0.3 million to selling, general and administrative expenses. (ii) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of \$0.2 million to sundry expense (income), net and a decrease of \$0.2 million to other expense (loss), net.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
(in thousands of United States dollars)  
(Uaudited)

	For the Three Months Ended June 30, 2019			For the Six Months Ended June 30, 2019			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
Revenue	\$ 390,160	\$ 689	\$ 390,849	\$ 793,924	\$ 1,282	\$ 795,206	c
Cost of revenue (exclusive of depreciation and amortization)	298,006	5,825	303,831	604,888	9,544	614,432	b, c
Selling, general and administrative expenses (exclusive of depreciation and amortization)	51,564	(402)	51,162	101,513	(674)	100,839	c
Depreciation and amortization	27,191	(2,412)	24,779	55,211	(3,808)	51,403	b, c
Related party expense	1,055	4,276	5,331	2,049	4,280	6,329	c
<b>Operating loss</b>	<b>12,344</b>	<b>(6,598)</b>	<b>5,746</b>	<b>30,263</b>	<b>(8,060)</b>	<b>22,203</b>	
<b>Other expense (income), net:</b>							
Interest expense, net	39,132	827	39,959	78,031	1,629	79,660	a
Debt modification and extinguishment costs	1,404	—	1,404	1,404	—	1,404	
Sundry expense (income), net	(1,493)	182	(1,311)	1,038	366	1,404	c
Other expense (income), net	2,709	(182)	2,527	4,386	(366)	4,020	c
<b>Net loss before income taxes</b>	<b>(29,408)</b>	<b>(7,425)</b>	<b>(36,833)</b>	<b>(54,596)</b>	<b>(9,689)</b>	<b>(64,285)</b>	
Income tax (expense) benefit	(4,738)	—	(4,738)	(9,458)	—	(9,458)	
<b>Net loss</b>	<b>\$ (34,146)</b>	<b>\$ (7,425)</b>	<b>\$ (41,571)</b>	<b>\$ (64,054)</b>	<b>\$ (9,689)</b>	<b>\$ (73,743)</b>	
Cumulative dividends for Series A Preferred Stock	(914)	—	(914)	(1,828)	—	(1,828)	
<b>Net loss attributable to common stockholders</b>	<b>\$ (35,060)</b>	<b>\$ (7,425)</b>	<b>\$ (42,485)</b>	<b>\$ (65,882)</b>	<b>\$ (9,689)</b>	<b>\$ (75,571)</b>	

**For the three months ended June 30, 2019**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$0.8 million to interest expense for the three months ended June 30, 2019.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$4.5 million of increase to cost of revenue and a decrease of \$1.7 million to depreciation and amortization for the three months ended June 30, 2019.
- (c) Other Misstatement Adjustments:

**Revenue Recognition Adjustments:** The correction of this misstatement resulted in an increase of \$0.7 million to revenue and an increase of \$0.7 million to cost of revenue for the three months ended June 30, 2019.

**Expense Reimbursement Adjustments:** The correction of this misstatement resulted in an increase of \$4.3 million to related party expense.

**Other Adjustments - Corrections to other misstatements were as follows:** (i) Correction to reclassify legal expenses and related party expenses to appropriate quarters resulted in a net decrease of \$0.4 million to selling, general and administrative expenses. (ii) Correction of ASC 842 implementation related deferred rents resulted in an increase of \$0.7 million to cost of revenue. (iii) Correction of amortization related to internally developed software resulted in \$0.7 million of decrease to depreciation and amortization. (iv) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of \$0.2 million to sundry expense (income), net and a decrease of \$0.2 million to other expense (loss), net.

**For the six months ended June 30, 2019**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$1.6 million to interest expense for the six months ended June 30, 2019.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$7.6 million of increase to cost of revenue and a decrease of \$3.1 million to depreciation and amortization for the six months ended June 30, 2019.
- (c) Other Misstatement Adjustments:

Revenue Recognition Adjustments: The correction of this misstatement resulted in an increase of \$1.3 million to revenue and an increase of \$1.3 million to cost of revenue for the six months ended June 30, 2019.

Expense Reimbursement Adjustments: The correction of this misstatement resulted in an increase of \$4.3 million to related party expense.

Other Adjustments - Corrections to other misstatements were as follows: (i) Correction of non-accrual of legal expenses resulted in a net decrease of \$0.7 million to selling, general and administrative expenses. (ii) Correction of ASC 842 implementation related deferred rents resulted in an increase of \$0.7 million to cost of revenue. (iii) Correction of amortization related to internally developed software resulted in \$0.7 million of decrease to depreciation and amortization. (iv) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of \$0.4 million to sundry expense (income), net and a decrease of \$0.4 million to other expense (loss), net.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
(in thousands of United States dollars)  
(Uaudited)

	For the Three Months Ended September 30, 2019			For the Nine Months Ended September 30, 2019			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
Revenue	\$ 372,917	\$ 628	\$ 373,545	\$ 1,166,841	\$ 1,910	\$ 1,168,751	c
Cost of revenue (exclusive of depreciation and amortization)	291,222	4,223	295,445	896,110	13,767	909,877	b, c
Selling, general and administrative expenses (exclusive of depreciation and amortization)	50,372	(2,025)	48,347	151,884	(2,698)	149,186	c
Depreciation and amortization	27,114	(2,035)	25,079	82,326	(5,844)	76,482	b, c
Impairment of goodwill and other intangible assets	99,682	(2,524)	97,158	99,682	(2,524)	97,158	
Related party expense	1,405	25	1,430	3,454	4,305	7,759	c
<b>Operating loss</b>	<b>(96,878)</b>	<b>2,964</b>	<b>(93,914)</b>	<b>(66,615)</b>	<b>(5,096)</b>	<b>(71,711)</b>	
Other expense (income), net:							
Interest expense, net	39,747	826	40,573	117,778	2,457	120,235	a
Debt modification and extinguishment costs	—	—	—	1,404	—	1,404	
Sundry expense (income), net	(10)	175	165	1,028	541	1,569	c
Other expense (income), net	581	(175)	406	4,965	(541)	4,424	c
<b>Net loss before income taxes</b>	<b>(137,196)</b>	<b>2,138</b>	<b>(135,058)</b>	<b>(191,790)</b>	<b>(7,553)</b>	<b>(199,343)</b>	
Income tax (expense) benefit	3,769	—	3,769	(5,689)	—	(5,689)	
<b>Net loss</b>	<b>\$ (133,427)</b>	<b>\$ 2,138</b>	<b>\$ (131,289)</b>	<b>\$ (197,479)</b>	<b>\$ (7,553)</b>	<b>\$ (205,032)</b>	
Cumulative dividends for Series A Preferred Stock	(884)	—	(884)	(2,712)	—	(2,712)	
<b>Net loss attributable to common stockholders</b>	<b>\$ (134,311)</b>	<b>\$ 2,138</b>	<b>\$ (132,173)</b>	<b>\$ (200,191)</b>	<b>\$ (7,553)</b>	<b>\$ (207,744)</b>	

**For the three months ended September 30, 2019**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$0.8 million to interest expense for the three months ended September 30, 2019.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$3.6 million of increase to cost of revenue and a decrease of \$2.7 million to depreciation and amortization for the three months ended September 30, 2019.
- (c) Other Misstatement Adjustments:

***Revenue Recognition Adjustments:*** The correction of this misstatement resulted in an increase of \$0.6 million to revenue and an increase of \$0.6 million to cost of revenue for the three months ended September 30, 2019.

***Other Adjustments - Corrections to other misstatements were as follows:*** (i) Correction to reclassify legal expenses and related party expenses to appropriate quarters resulted in a net decrease of \$2.0 million to selling, general and administrative expenses. (ii) Correction to reclassify goodwill impairment charges resulted in a decrease of \$2.5 million to goodwill (iii) Correction of amortization related to internally developed software resulted in \$0.7 million of increase to depreciation and amortization. (iv) Correction to reclassify foreign

exchange transaction gain / loss resulted in an increase of \$0.2 million to sundry expense (income), net and a decrease of \$0.2 million to other expense (loss), net.

**For the nine months ended September 30, 2019**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$2.5 million to interest expense for the nine months ended September 30, 2019.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$11.2 million of increase to cost of revenue and a decrease of \$5.8 million to depreciation and amortization for the nine months ended September 30, 2019.
- (c) Other Misstatement Adjustments:

**Revenue Recognition Adjustments:** The correction of this misstatement resulted in an increase of \$1.9 million to revenue and an increase of \$1.9 million to cost of revenue for the nine months ended September 30, 2019.

**Expense Reimbursement Adjustments:** The correction of this misstatement resulted in an increase of \$4.3 million to related party expense.

**Other Adjustments - Corrections to other misstatements were as follows:** (i) Correction to reclassify legal expenses and related party expenses to appropriate quarters resulted in a net decrease of \$2.7 million to selling, general and administrative expenses. (ii) Correction to reclassify goodwill impairment charges resulted in a decrease of \$2.5 million to goodwill (iii) Correction of ASC 842 implementation related deferred rents resulted in an increase of \$0.7 million to cost of revenue. (iv) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of \$0.5 million to sundry expense (income), net and a decrease of \$0.5 million to other expense (loss), net.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statement of Operations**  
(in thousands of United States dollars)  
(Unaudited)

	For the Three Months Ended March 31, 2018			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	
<b>Revenue</b>	<b>\$ 393,167</b>	\$ —	<b>\$ 393,167</b>	
Cost of revenue (exclusive of depreciation and amortization)	293,792	1,105	294,897	<b>b</b>
Selling, general and administrative expenses (exclusive of depreciation and amortization)	45,595	(76)	45,519	<b>c</b>
Depreciation and amortization	38,019	(1,780)	36,239	<b>b</b>
Related party expense	1,105	76	1,181	<b>c</b>
<b>Operating loss</b>	<b>14,656</b>	<b>675</b>	<b>15,331</b>	
<b>Other expense (income), net:</b>				
Interest expense, net	38,017	659	38,676	<b>a</b>
Sundry expense (income), net	(64)	293	229	<b>c</b>
Other expense (income), net	(3,328)	(293)	(3,621)	<b>c</b>
<b>Net loss before income taxes</b>	<b>(19,969)</b>	<b>16</b>	<b>(19,953)</b>	
Income tax (expense) benefit	(4,025)	—	(4,025)	
<b>Net loss</b>	<b>\$ (23,994)</b>	<b>\$ 16</b>	<b>\$ (23,978)</b>	
Cumulative dividends for Series A Preferred Stock	(914)	—	(914)	
<b>Net loss attributable to common stockholders</b>	<b>\$ (24,908)</b>	<b>\$ 16</b>	<b>\$ (24,892)</b>	

***For the three months ended March 31, 2018***

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$0.7 million to interest expense for the three months ended March 31, 2018.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$1.1 million of increase to cost of revenue and a decrease of \$1.8 million to depreciation and amortization for the three months ended March 31, 2018.
- (c) Other Misstatement Adjustments:

***Expense Reimbursement Adjustments:*** The correction of this misstatement resulted in an increase of \$0.1 million to related party expense.

***Other Adjustments - Corrections to other misstatements were as follows:*** (i) Correction to reclassify legal expenses as related party expenses resulted in a net decrease of \$0.1 million to selling, general and administrative expenses. (ii) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of \$0.3 million to sundry expense (income), net and a decrease of \$0.3 million to other expense (loss), net.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
(in thousands of United States dollars)  
(Uunaudited)

	For the Three Months Ended June 30, 2018			For the Six Months Ended June 30, 2018			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
Revenue	\$ 410,382	\$ —	\$ 410,382	\$ 803,549	\$ —	\$ 803,549	
Cost of revenue (exclusive of depreciation and amortization)	313,954	1,213	315,167	607,746	2,318	610,064	b
Selling, general and administrative expenses (exclusive of depreciation and amortization)	46,723	(345)	46,378	92,318	(421)	91,897	c
Depreciation and amortization	36,368	(1,624)	34,744	74,386	(3,404)	70,982	b
Related party expense	1,402	5,381	6,783	2,507	5,457	7,964	c
<b>Operating loss</b>	<b>11,935</b>	<b>(4,625)</b>	<b>7,310</b>	<b>26,592</b>	<b>(3,950)</b>	<b>22,642</b>	
<b>Other expense (income), net:</b>							
Interest expense, net	38,527	702	39,229	76,544	1,361	77,905	a
Sundry expense (income), net	(2,325)	203	(2,122)	(2,389)	496	(1,893)	c
Other expense (income), net	(704)	(203)	(907)	(4,032)	(496)	(4,528)	c
<b>Net loss before income taxes</b>	<b>(23,563)</b>	<b>(5,327)</b>	<b>(28,890)</b>	<b>(43,531)</b>	<b>(5,311)</b>	<b>(48,842)</b>	
Income tax (expense) benefit	(1,619)	—	(1,619)	(5,644)	—	(5,644)	
<b>Net loss</b>	<b>\$ (25,182)</b>	<b>\$ (5,327)</b>	<b>\$ (30,509)</b>	<b>\$ (49,175)</b>	<b>\$ (5,311)</b>	<b>\$ (54,486)</b>	
Cumulative dividends for Series A Preferred Stock	(914)	—	(914)	(1,828)	—	(1,828)	
<b>Net loss attributable to common stockholders</b>	<b>\$ (26,096)</b>	<b>\$ (5,327)</b>	<b>\$ (31,423)</b>	<b>\$ (51,003)</b>	<b>\$ (5,311)</b>	<b>\$ (56,314)</b>	

**For the three months ended June 30, 2018**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$0.7 million to interest expense for the three months ended June 30, 2018.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$1.2 million of increase to cost of revenue and a decrease of \$1.6 million to depreciation and amortization for the three months ended June 30, 2018.
- (c) Other Misstatement Adjustments:

**Expense Reimbursement Adjustments:** The correction of this misstatement resulted in an increase of \$5.4 million to related party expense.

**Other Adjustments - Corrections to other misstatements were as follows:** (i) Correction to reclassify legal expenses as related party expenses resulted in a net decrease of \$0.3 million to selling, general and administrative expenses. (ii) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of \$0.2 million to sundry expense (income), net and a decrease of \$0.2 million to other expense (loss), net.

**For the six months ended June 30, 2018**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$1.4 million to interest expense for the six months ended June 30, 2018.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$2.3 million of increase to cost of revenue and a decrease of \$3.4 million to depreciation and amortization for the six months ended June 30, 2018.

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(c) Other Misstatement Adjustments:

Expense Reimbursement Adjustments: The correction of this misstatement resulted in an increase of \$5.5 million to related party expense.

Other Adjustments - Corrections to other misstatements were as follows: (i) Correction to reclassify legal expenses as related party expenses resulted in a net decrease of \$0.4 million to selling, general and administrative expenses. (ii) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of \$0.5 million to sundry expense (income), net and a decrease of \$0.5 million to other expense (loss), net.

**Exela Technologies, Inc. and Subsidiaries  
Consolidated Statements of Operations**  
(in thousands of United States dollars)  
(Unaudited)

	<u>For the Three Months Ended September 30, 2018</u>		<u>For the Nine Months Ended September 30, 2018</u>			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	
Revenue	\$ 383,030	\$ —	\$ 383,030	\$ 1,186,579	\$ —	\$ 1,186,579
Cost of revenue (exclusive of depreciation and amortization)	295,936	749	296,685	903,682	3,067	906,749
Selling, general and administrative expenses (exclusive of depreciation and amortization)	44,913	(16)	44,897	137,231	(437)	136,794
Depreciation and amortization	35,041	(1,631)	33,410	109,428	(5,035)	104,393
Related party expense	759	16	775	3,267	5,472	8,739
<b>Operating loss</b>	<b>6,381</b>	<b>882</b>	<b>7,263</b>	<b>32,971</b>	<b>(3,067)</b>	<b>29,904</b>
Other expense (income), net:						
Interest expense, net	38,339	748	39,087	114,883	2,109	116,992
Debt modification and extinguishment costs	1,067	—	1,067	1,067	—	1,067
Sundry expense (income), net	(2,571)	288	(2,283)	(4,961)	785	(4,176)
Other expense (income), net	(781)	(288)	(1,069)	(4,813)	(784)	(5,597)
<b>Net loss before income taxes</b>	<b>(29,673)</b>	<b>134</b>	<b>(29,539)</b>	<b>(73,205)</b>	<b>(5,177)</b>	<b>(78,382)</b>
Income tax (expense) benefit	733	—	733	(4,911)	—	(4,911)
<b>Net loss</b>	<b>\$ (28,940)</b>	<b>\$ 134</b>	<b>\$ (28,806)</b>	<b>\$ (78,116)</b>	<b>\$ (5,177)</b>	<b>\$ (83,293)</b>
Cumulative dividends for Series A Preferred Stock	(914)	—	(914)	(2,742)	—	(2,742)
<b>Net loss attributable to common stockholders</b>	<b>\$ (29,854)</b>	<b>\$ 134</b>	<b>\$ (29,720)</b>	<b>\$ (80,858)</b>	<b>\$ (5,177)</b>	<b>\$ (86,035)</b>

For the three months ended September 30, 2018

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$0.7 million to interest expense for the three months ended September 30, 2018.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$0.7 million of increase to cost of revenue and a decrease of \$1.6 million to depreciation and amortization for the three months ended September 30, 2018.

(c) Other Misstatement Adjustments:

Other Adjustments - Corrections to other misstatements were as follows: (i) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of \$0.3 million to sundry expense (income), net and a decrease of \$0.3 million to other expense (loss), net.

**For the nine months ended September 30, 2018**

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$2.1 million to interest expense for the nine months ended September 30, 2018.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in \$3.0 million of increase to cost of revenue and a decrease of \$5.0 million to depreciation and amortization for the nine months ended September 30, 2018.

(c) Other Misstatement Adjustments:

Expense Reimbursement Adjustments: The correction of this misstatement resulted in an increase of \$5.5 million to related party expense.

Other Adjustments - Corrections to other misstatements were as follows: (i) Correction to reclassify legal expenses as related party expenses resulted in a net decrease of \$0.4 million to selling, general and administrative expenses. (ii) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of \$0.8 million to sundry expense (income), net and a decrease of \$0.8 million to other expense (loss), net.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statement of Operations**  
(in thousands of United States dollars)  
(Unaudited)

	For the Three Months Ended December 31, 2018			
	As Previously Reported	Restatement Adjustment	As Restated	Restatement Reference
Revenue	\$ 399,643	\$ —	\$ 399,643	
Cost of revenue (exclusive of depreciation and amortization)	306,192	462	306,654	b, c
Selling, general and administrative expenses (exclusive of depreciation and amortization)	47,420	694	48,114	c
Depreciation and amortization	36,057	(2,373)	33,684	b
Impairment of goodwill and other intangible assets	48,127	—	48,127	
Related party expense	1,068	2,596	3,664	c
<b>Operating loss</b>	<b>(39,221)</b>	<b>(1,379)</b>	<b>(40,600)</b>	
<b>Other expense (income), net:</b>				
Interest expense, net	38,212	787	38,999	a
Sundry expense (income), net	1,689	(784)	905	c
Other expense (income), net	1,783	784	2,567	c
<b>Net loss before income taxes</b>	<b>(80,905)</b>	<b>(2,166)</b>	<b>(83,071)</b>	
Income tax (expense) benefit	(3,496)	54	(3,442)	
<b>Net loss</b>	<b>\$ (84,401)</b>	<b>\$ (2,112)</b>	<b>\$ (86,513)</b>	
Cumulative dividends for Series A Preferred Stock	(914)	—	(914)	
<b>Net loss attributable to common stockholders</b>	<b>\$ (85,315)</b>	<b>\$ (2,112)</b>	<b>\$ (87,427)</b>	

**For the three months ended December 31, 2018**

- (a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of \$0.8 million to interest expense for the three months ended December 31, 2018.
- (b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in an increase of \$1.2 million in cost of revenue and a decrease of \$2.4 million to depreciation and amortization for the three months ended December 31, 2018.
- (c) Other Misstatement Adjustments:

**Expense Reimbursement Adjustments:** The correction of this misstatement resulted in an increase of \$2.6 million to related party expense.

**Other Adjustments - Corrections to other misstatements were as follows:** (i) Correction of ASC 842 implementation related deferred rents resulted in a decrease of \$0.7 million to cost of revenue. (ii) Correction of non-accrual of legal expenses resulted in an increase of \$0.7 million to selling, general and administrative expenses. (iii) Correction to reclassify foreign exchange transaction gain / loss resulted in a decrease of \$0.8 million to sundry expense (income), net and an increase of \$0.8 million to other expense (loss), net.

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The restated quarterly Consolidated Statements of Comprehensive Loss for the first three quarters of fiscal 2019 and each of the quarterly periods in fiscal 2018 are presented below:

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statement of Comprehensive Loss**  
(in thousands of United States dollars)  
(Unaudited)

	For the Three Months Ended March 31, 2019			
	As Previously Reported	Restatement Adjustment	As Restated	Restatement Reference
<b>Net loss</b>	<b>\$ (29,907)</b>	<b>\$ (2,265)</b>	<b>\$ (32,172)</b>	
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	3,392	—	3,392	
Unrealized pension actuarial gains (losses), net of tax	(224)	—	(224)	
<b>Total other comprehensive loss, net of tax</b>	<b>\$ (26,739)</b>	<b>\$ (2,265)</b>	<b>\$ (29,004)</b>	

**For the three months ended March 31, 2019**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months ended March 31, 2019 above.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Loss**  
(in thousands of United States dollars)  
(Unaudited)

	For the Three Months Ended June 30, 2019			For the Six Months Ended June 30, 2019			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
	<u>Reported</u>	<u>Adjustment</u>	<u>As Restated</u>	<u>Reported</u>	<u>Adjustment</u>	<u>As Restated</u>	
<b>Net loss</b>	<b>\$ (34,146)</b>	<b>\$ (7,425)</b>	<b>\$ (41,571)</b>	<b>\$ (64,054)</b>	<b>\$ (9,689)</b>	<b>\$ (73,743)</b>	
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustments	(2,288)	—	(2,288)	1,104	—	1,104	
Unrealized pension actuarial gains (losses), net of tax	256	—	256	32	—	32	
<b>Total other comprehensive loss, net of tax</b>	<b>\$ (36,178)</b>	<b>\$ (7,425)</b>	<b>\$ (43,603)</b>	<b>\$ (62,918)</b>	<b>\$ (9,689)</b>	<b>\$ (72,607)</b>	

**For the three months and six months ended June 30, 2019**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months and six months ended June 30, 2019 above.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Loss**  
(in thousands of United States dollars)  
(Unaudited)

	For the Three Months Ended September 30, 2019			For the Nine Months Ended September 30, 2019			<b>Restatement Reference</b>
	<b>As Previously Reported</b>	<b>Restatement Adjustment</b>	<b>As Restated</b>	<b>As Previously Reported</b>	<b>Restatement Adjustment</b>	<b>As Restated</b>	
<b>Net loss</b>	\$ (133,427)	\$ 2,138	\$ (131,289)	\$ (197,479)	\$ (7,553)	\$ (205,032)	
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustments	(2,325)	—	(2,325)	(1,221)	—	(1,221)	
Unrealized pension actuarial gains (losses), net of tax	291	—	291	323	—	323	
<b>Total other comprehensive loss, net of tax</b>	<b>\$ (135,461)</b>	<b>\$ 2,138</b>	<b>\$ (133,323)</b>	<b>\$ (198,377)</b>	<b>\$ (7,553)</b>	<b>\$ (205,930)</b>	

**For the three months and nine months ended September 30, 2019**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months and nine months ended September 30, 2019 above.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statement of Comprehensive Loss**  
(in thousands of United States dollars)  
(Unaudited)

	For the Three Months Ended March 31, 2018			<b>Restatement Reference</b>
	<b>As Previously Reported</b>	<b>Restatement Adjustment</b>	<b>As Restated</b>	
<b>Net loss</b>	<b>\$ (23,994)</b>	<b>\$ 16</b>	<b>\$ (23,978)</b>	
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(268)	—	(268)	
Unrealized pension actuarial gains (losses), net of tax	(403)	—	(403)	
<b>Total other comprehensive loss, net of tax</b>	<b>\$ (24,665)</b>	<b>\$ 16</b>	<b>\$ (24,649)</b>	

**For the three months ended March 31, 2018**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months ended March 31, 2018 above.

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**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Loss**  
(in thousands of United States dollars)  
(Uunaudited)

	For the Three Months Ended June 30, 2018			For the Six Months Ended June 30, 2018			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
<b>Net loss</b>	\$ (25,182)	\$ (5,327)	\$ (30,509)	\$ (49,175)	\$ (5,311)	\$ (54,486)	
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustments	(879)	—	(879)	(1,147)	—	(1,147)	
Unrealized pension actuarial gains (losses), net of tax	626	—	626	223	—	223	
<b>Total other comprehensive loss, net of tax</b>	<b>\$ (25,435)</b>	<b>\$ (5,327)</b>	<b>\$ (30,762)</b>	<b>\$ (50,099)</b>	<b>\$ (5,311)</b>	<b>\$ (55,410)</b>	

**For the three months and six months ended June 30, 2018**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months and six months ended June 30, 2018 above.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Loss**  
(in thousands of United States dollars)  
(Uunaudited)

	For the Three Months Ended September 30, 2018			For the Nine Months Ended September 30, 2018			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
<b>Net loss</b>	\$ (28,940)	\$ 134	\$ (28,806)	\$ (78,116)	\$ (5,177)	\$ (83,293)	
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustments	(2,492)	—	(2,492)	(3,639)	—	(3,639)	
Unrealized pension actuarial gains (losses), net of tax	140	—	140	363	—	363	
<b>Total other comprehensive loss, net of tax</b>	<b>\$ (31,292)</b>	<b>\$ 134</b>	<b>\$ (31,158)</b>	<b>\$ (81,392)</b>	<b>\$ (5,177)</b>	<b>\$ (86,569)</b>	

**For the three months and nine months ended September 30, 2018**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months and nine months ended September 30, 2018 above.

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statement of Comprehensive Loss**  
(in thousands of United States dollars)  
(Unaudited)

	For the Three Months Ended December 31, 2018		
	As Previously Reported	Restatement Adjustment	As Restated
<b>Net loss</b>	<b>\$ (84,401)</b>	<b>\$ (2,112)</b>	<b>\$ (86,513)</b>
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(2,733)	167	(2,566)
Unrealized pension actuarial gains (losses), net of tax	1,390	—	1,390
<b>Total other comprehensive loss, net of tax</b>	<b>\$ (85,744)</b>	<b>\$ (1,945)</b>	<b>\$ (87,689)</b>

***For the three months ended December 31, 2018***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months ended December 31, 2018 above.

The \$0.2 million decrease to foreign currency translation adjustments is primarily the result of changes in outsourced contract costs for foreign subsidiaries.

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The restated Consolidated Statement of Cash Flows for the year-to-date periods of the first three quarters of fiscal 2019 and fiscal 2018 are presented below (dollars in thousands):

**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(in thousands of United States dollars unless otherwise stated)  
(Unaudited)

	For the Three Months Ended March 31, 2019			For the Three Months Ended March 31, 2018			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
<b>Cash flows from operating activities</b>							
Net loss	\$ (29,907)	\$ (2,265)	\$ (32,172)	\$ (23,994)	\$ 16	\$ (23,978)	
Adjustments to reconcile net loss							
Depreciation and amortization	28,020	(1,396)	26,624	38,019	(1,780)	36,239	b
Original issue discount and debt issuance cost amortization	2,852	—	2,852	2,595	—	2,595	
Provision for doubtful accounts	800	—	800	481	—	481	
Deferred income tax provision	1,076	—	1,076	835	—	835	
Share-based compensation expense	2,798	—	2,798	959	—	959	
Foreign currency remeasurement	35	—	35	(323)	—	(323)	
Loss (gain) on sale of assets	9	45	54	253	26	279	c
Fair value adjustment for interest rate swap	1,677	—	1,677	(3,328)	—	(3,328)	
Change in operating assets and liabilities, net effect from acquisitions:							
Accounts receivable	(8,742)	—	(8,742)	(10,875)	—	(10,875)	
Prepaid expenses and other assets	(632)	—	(632)	(5,567)	—	(5,567)	
Accounts payable and accrued liabilities	(33,034)	541	(33,033)	(18,864)	659	(18,205)	c
Related party payables	(1,551)	—	(1,551)	(273)	—	(273)	
Additions to outsource contract costs	—	(2,434)	(2,434)	—	(492)	(492)	b
<b>Net cash provided by (used in) operating activities</b>	<b>(37,139)</b>	<b>(5,509)</b>	<b>(42,648)</b>	<b>(20,082)</b>	<b>(1,571)</b>	<b>(21,653)</b>	
<b>Cash flows from investing activities</b>							
Purchases of property, plant, and equipment	(5,572)	—	(5,572)	(5,957)	—	(5,957)	
Additions to internally developed software	(1,879)	—	(1,879)	(1,092)	—	(1,092)	
Additions to outsourcing contract costs	(5,561)	5,561	—	(1,596)	1,596	—	b
Proceeds from sale of assets	7	—	7	2	—	2	
<b>Net cash provided by (used in) investing activities</b>	<b>(13,005)</b>	<b>5,561</b>	<b>(7,444)</b>	<b>(8,643)</b>	<b>1,596</b>	<b>(7,047)</b>	
<b>Cash flows from financing activities</b>							
Repurchases of Common Stock	(2,872)	—	(2,872)	—	—	—	
Borrowings from other loans	566	6,338	6,904	1,863	—	1,863	c
Net borrowings under factoring arrangement	1,118	—	1,118	—	—	—	
Lease terminations	—	(45)	(45)	—	(26)	(26)	c
Cash paid for equity issuance costs	—	—	—	(7,500)	—	(7,500)	
Borrowings from senior secured revolving facility	51,000	—	51,000	25,000	—	25,000	
Repayments on senior secured revolving facility	(21,000)	—	(21,000)	(25,000)	—	(25,000)	
Principal payments on finance lease obligations	(5,077)	—	(5,077)	(4,803)	—	(4,803)	
Principal repayments on senior secured term loans and other loans	(4,153)	(6,345)	(10,498)	(2,947)	—	(2,947)	c
<b>Net cash provided by (used in) financing activities</b>	<b>19,582</b>	<b>(52)</b>	<b>19,530</b>	<b>(13,387)</b>	<b>(26)</b>	<b>(13,413)</b>	
Effect of exchange rates on cash	(32)	—	(32)	55	—	55	
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(30,594)</b>	<b>—</b>	<b>(30,594)</b>	<b>(42,057)</b>	<b>(1)</b>	<b>(42,058)</b>	
Cash, restricted cash, and cash equivalents							
Beginning of period	43,854	—	43,854	81,489	—	81,489	
End of period	<b>\$ 13,260</b>	<b>\$ —</b>	<b>\$ 13,260</b>	<b>\$ 39,432</b>	<b>\$ (1)</b>	<b>\$ 39,431</b>	
<b>Supplemental cash flow data:</b>							
Income tax payments, net of refunds received	\$ 1,356	\$ —	\$ 1,356	\$ 1,053	\$ —	\$ 1,053	
Interest paid	60,573	—	60,573	66,192	—	66,192	
<b>Noncash investing and financing activities:</b>							
Assets acquired through right-of-use arrangements	4,097	—	4,097	4,432	—	4,432	
Leasehold improvements funded by lessor	—	—	—	—	—	—	
Accrued capital expenditures	809	—	809	1,101	—	1,101	

**For the three months ended March 31, 2019**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months ended March 31, 2019 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of \$3.8 million (\$1.4 million of depreciation and amortization and \$2.4 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of \$5.6 million (Additions to outsourcing contract costs) for the three months ended March 31, 2019.

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The misstatements in the cash flow misclassifications category related to (i) Lease terminations resulted in a decrease to net cash flows provided by financing activities of \$0.05 million and an increase to net cash flows provided by operating activities of \$0.05 million for the year ended December 31, 2018. (Loss on sale of assets and lease terminations), and (ii) Grossing up of borrowing and pay downs of a working capital loan on a foreign subsidiary resulting in an increase of \$6.3 million of borrowings from other loans and a decrease of \$6.3 million of principal repayments on other loans, both of which were neutral and within net cash provided by financing.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the three months ended March 31, 2019.

***For the three months ended March 31, 2018***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months ended March 31, 2018 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of \$2.3 million (\$1.8 million of depreciation and amortization and \$0.5 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of \$1.6 million (Additions to outsourcing contract costs) for the three months ended March 31, 2018.

The misstatements in the cash flow misclassifications category related to lease terminations resulted in a decrease to net cash flows provided by financing activities of \$0.03 million and an increase to net cash flows provided by operating activities of \$0.03 million for the year ended December 31, 2018 (Loss on sale of assets and lease terminations).

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the three months ended March 31, 2018.

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**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(in thousands of United States dollars unless otherwise stated)  
(Unaudited)

	For the Six Months Ended June 30, 2019			For the Six Months Ended June 30, 2018			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
<b>Cash flows from operating activities</b>							
Net loss	\$ (64,054)	\$ (9,689)	\$ (73,743)	\$ (49,175)	\$ (5,311)	\$ (54,486)	
Adjustments to reconcile net loss							
Depreciation and amortization	55,211	(3,808)	51,403	74,386	(3,404)	70,982	b, c
Original issue discount and debt issuance cost amortization	5,749	—	5,749	5,272	—	5,272	
Debt modification and extinguishment costs	1,049	—	1,049	—	—	—	
Provision for doubtful accounts	3,334	—	3,334	1,857	—	1,857	
Deferred income tax provision	4,623	—	4,623	705	—	705	
Share-based compensation expense	5,459	—	5,459	2,895	—	2,895	
Foreign currency remeasurement	288	—	288	(1,156)	—	(1,156)	
Loss (gain) on sale of assets	(10)	95	85	1,340	55	1,395	c
Fair value adjustment for interest rate swap	4,385	—	4,385	(4,675)	—	(4,675)	
Change in operating assets and liabilities, net effect from acquisitions:							
Accounts receivable	624	—	624	(19,813)	—	(19,813)	
Prepaid expenses and other assets	1,260	—	1,260	(1,603)	—	(1,603)	
Accounts payable and accrued liabilities	(14,991)	2,396	(12,595)	40,677	1,361	42,038	c
Related party payables	(7,703)	3,804	(3,899)	(2,458)	5,036	2,578	c
Additions to outsourcing contract costs	—	(2,860)	(2,860)	—	(1,377)	(1,377)	b
<b>Net cash provided by (used in) operating activities</b>	<b>(4,776)</b>	<b>(10,062)</b>	<b>(14,838)</b>	<b>48,252</b>	<b>(3,640)</b>	<b>44,612</b>	
<b>Cash flows from investing activities</b>							
Purchases of property, plant, and equipment	(9,072)	—	(9,072)	(10,244)	—	(10,244)	
Additions to internally developed software	(4,007)	—	(4,007)	(2,115)	—	(2,115)	
Additions to outsourcing contract costs	(10,440)	10,440	—	(3,695)	3,695	—	b
Proceeds from sale of assets	20	—	20	1,014	—	1,014	
Cash paid in acquisition, net of cash received	(5,000)	—	(5,000)	(4,145)	—	(4,145)	
<b>Net cash provided by (used in) investing activities</b>	<b>(28,499)</b>	<b>10,440</b>	<b>(18,059)</b>	<b>(19,185)</b>	<b>3,695</b>	<b>(15,490)</b>	
<b>Cash flows from financing activities</b>							
Third party debt modification and extinguishment costs	355	(355)	—	—	—	—	c
Repurchases of Common Stock	(3,480)	—	(3,480)	(3,479)	—	(3,479)	
Borrowings from other loans	1,544	12,548	14,092	2,152	—	2,152	c
Net borrowings under factoring arrangement	2,426	—	2,426	—	—	—	
Proceeds from senior secured term loans	29,850	—	29,850	—	—	—	
Lease terminations	—	(95)	(95)	—	(56)	(56)	c
Cash paid for debt issuance costs	(362)	355	(7)	—	—	—	c
Cash paid for equity issuance costs	—	—	—	(7,500)	—	(7,500)	
Borrowings from senior secured revolving facility	68,000	—	68,000	30,000	—	30,000	
Repayments on senior secured revolving facility	(68,000)	—	(68,000)	(30,000)	—	(30,000)	
Principal payments on finance lease obligations	(9,180)	—	(9,180)	(8,404)	—	(8,404)	
Principal repayments on senior secured term loans and other loans	(8,417)	(12,831)	(21,248)	(6,043)	—	(6,043)	c
<b>Net cash provided by (used in) financing activities</b>	<b>12,736</b>	<b>(378)</b>	<b>12,358</b>	<b>(23,274)</b>	<b>(56)</b>	<b>(23,330)</b>	
Effect of exchange rates on cash	111	—	111	(410)	—	(410)	
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(20,428)</b>	<b>—</b>	<b>(20,428)</b>	<b>5,383</b>	<b>(1)</b>	<b>5,382</b>	
Cash, restricted cash, and cash equivalents							
Beginning of period	43,854	—	43,854	81,489	—	81,489	
End of period	<b>\$ 23,426</b>	<b>\$ —</b>	<b>\$ 23,426</b>	<b>\$ 86,872</b>	<b>\$ (1)</b>	<b>\$ 86,871</b>	
<b>Supplemental cash flow data:</b>							
Income tax payments, net of refunds received	\$ 5,181	\$ —	\$ 5,181	\$ 3,864	\$ —	\$ 3,864	
Interest paid	71,240	(29)	71,211	76,353	—	76,353	c
<b>Noncash investing and financing activities:</b>							
Assets acquired through right-of-use arrangements	6,778	—	6,778	7,787	—	7,787	
Leasehold improvements funded by lessor	—	—	—	1,540	—	1,540	
Accrued capital expenditures	1,083	—	1,083	1,144	—	1,144	

**For the six months ended June 30, 2019**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the six months ended June 30, 2019 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of \$6.7 million (\$3.8 million of depreciation and amortization and \$2.9 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of \$10.4 million (Additions to outsourcing contract costs) for the six months ended June 30, 2019.

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The misstatements in the cash flow misclassifications category related to (i) Lease terminations resulted in a decrease to net cash flows provided by financing activities of \$0.1 million and an increase to net cash flows provided by operating activities of \$0.1 million for the year ended December 31, 2018. (Loss on sale of assets and lease terminations), (ii) Grossing up of borrowing and pay downs of a working capital loan on a foreign subsidiary resulting in an increase of \$12.5 million of borrowings from other loans and a decrease of \$12.8 million of principal repayments on other loans, both of which were neutral and within net cash provided by financing, and (iii) Cash flow classification adjustment related to incorrect interpretation of ASU 2016-15 (Classification of Certain Receipts and Cash Payments) in 2018 resulted in a line item classification change within cash flows provided by financing activities (Decrease of \$0.4 million of Third party debt modification and extinguishment costs and an increase of \$0.4 million of cash paid for debt issuance costs).

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the six months ended June 30, 2019.

**For the six months ended June 30, 2018**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the six months ended June 30, 2018 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of \$4.8 million (\$3.4 million of depreciation and amortization and \$1.4 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of \$3.7 million (Additions to outsourcing contract costs) for the six months ended June 30, 2018.

The misstatements in the cash flow misclassifications category related to lease terminations resulted in a decrease to net cash flows provided by financing activities of \$0.06 million and an increase to net cash flows provided by operating activities of \$0.06 million for the six months ended June 30, 2018.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the six months ended June 30, 2018.

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**Exela Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(in thousands of United States dollars unless otherwise stated)  
(Unaudited)

	For the Nine Months Ended September 30, 2019			For the Nine Months Ended September 30, 2018			Restatement Reference
	As Previously Reported	Restatement Adjustment	As Restated	As Previously Reported	Restatement Adjustment	As Restated	
<b>Cash flows from operating activities</b>							
Net loss	\$ (197,479)	\$ (7,553)	\$ (205,032)	\$ (78,116)	\$ (5,177)	\$ (83,293)	
Adjustments to reconcile net loss							
Depreciation and amortization	82,326	(5,844)	76,482	109,428	(5,035)	104,393	b
Original issue discount and debt issuance cost amortization	8,730	—	8,730	8,062	—	8,062	
Impairment of goodwill and other intangible assets	99,682	(2,524)	97,158	—	—	—	c
Debt modification and extinguishment costs	1,049	—	1,049	—	103	103	
Provision for doubtful accounts	4,402	—	4,402	2,470	—	2,470	
Deferred income tax provision	1,632	—	1,632	(3,689)	—	(3,689)	
Share-based compensation expense	6,903	—	6,903	4,516	—	4,516	
Foreign currency remeasurement	(173)	—	(173)	(2,040)	—	(2,040)	
Loss (gain) on sale of assets	(191)	314	123	1,835	213	2,048	c
Fair value adjustment for interest rate swap	4,965	—	4,965	(5,456)	—	(5,456)	
Change in operating assets and liabilities, net effect from acquisitions:							
Accounts receivable	3,501	—	3,501	(6,374)	—	(6,374)	
Prepaid expenses and other assets	2,377	—	2,377	(5,770)	—	(5,770)	
Accounts payable and accrued liabilities	(43,861)	2,715	(41,146)	(23,457)	2,109	(21,348)	c
Related party payables	(7,502)	2,304	(5,198)	(3,689)	5,036	1,347	c
Additions to outsource contract costs	—	(3,130)	(3,130)	—	(2,360)	(2,360)	b
<b>Net cash provided by (used in) operating activities</b>	<b>(33,639)</b>	<b>(13,718)</b>	<b>(47,357)</b>	<b>(2,280)</b>	<b>(5,111)</b>	<b>(7,391)</b>	
<b>Cash flows from investing activities</b>							
Purchases of property, plant, and equipment	(10,797)	—	(10,797)	(14,077)	—	(14,077)	
Additions to internally developed software	(5,074)	—	(5,074)	(3,080)	—	(3,080)	
Additions to outsourcing contract costs	(14,304)	14,304	—	(5,427)	5,427	—	b
Proceeds from sale of assets	360	—	360	1,095	—	1,095	
Cash paid in acquisition, net of cash received	(5,000)	—	(5,000)	(6,513)	—	(6,513)	
<b>Net cash provided by (used in) investing activities</b>	<b>(34,815)</b>	<b>14,304</b>	<b>(20,511)</b>	<b>(28,002)</b>	<b>5,427</b>	<b>(22,575)</b>	
<b>Cash flows from financing activities</b>							
Third party debt modification and extinguishment costs	355	(355)	—	1,067	(1,067)	—	c
Repurchases of Common Stock	(3,480)	—	(3,480)	(4,899)	—	(4,899)	
Borrowings from other loans	1,728	19,802	21,530	3,068	—	3,068	c
Net borrowings under factoring arrangement	(494)	—	(494)	—	—	—	
Cash paid for withholding taxes on vested RSUs	(223)	—	(223)	—	—	—	
Proceeds from senior secured term loans	29,850	—	29,850	30,000	—	30,000	
Lease terminations	—	(314)	(314)	—	(213)	(213)	c
Cash paid for debt issuance costs	(362)	355	(7)	(1,094)	964	(130)	c
Cash paid for equity issuance costs	—	—	(7,500)	—	—	(7,500)	
Borrowings from senior secured revolving facility	130,500	—	130,500	30,000	—	30,000	
Repayments on senior secured revolving facility	(91,500)	—	(91,500)	(30,000)	—	(30,000)	
Principal payments on finance lease obligations	(13,598)	—	(13,598)	(12,594)	—	(12,594)	
Principal repayments on senior secured term loans and other loans	(12,922)	(20,074)	(32,996)	(9,053)	—	(9,053)	c
<b>Net cash provided by (used in) financing activities</b>	<b>39,854</b>	<b>(586)</b>	<b>39,268</b>	<b>(1,005)</b>	<b>(316)</b>	<b>(1,321)</b>	
Effect of exchange rates on cash	(29)	—	(29)	(555)	—	(555)	
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(28,629)</b>	<b>—</b>	<b>(28,629)</b>	<b>(31,842)</b>	<b>—</b>	<b>(31,842)</b>	
Cash, restricted cash, and cash equivalents							
Beginning of period	43,854	—	43,854	81,489	—	81,489	
End of period	<b>\$ 15,225</b>	<b>\$ —</b>	<b>\$ 15,225</b>	<b>\$ 49,647</b>	<b>\$ —</b>	<b>\$ 49,647</b>	
<b>Supplemental cash flow data:</b>							
Income tax payments, net of refunds received	\$ 6,981	\$ —	\$ 6,981	\$ 5,296	\$ —	\$ 5,296	
Interest paid	131,773	(29)	131,744	136,396	—	136,396	c
<b>Noncash investing and financing activities:</b>							
Assets acquired through right-of-use arrangements	9,352	—	9,352	9,318	—	9,318	
Leasehold improvements funded by lessor	—	—	—	1,565	—	1,565	
Accrued capital expenditures	1,083	1,305	2,388	1,994	—	1,994	c

**For the nine months ended September 30, 2019**

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the nine months ended September 30, 2019 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of \$8.9 million (\$5.8 million of depreciation and amortization and \$3.1 million of additions to

outsourcing contract costs), and an increase to net cash flows provided by investing activities of \$14.3 million (Additions to outsourcing contract costs) for the nine months ended September 30, 2019.

The misstatements in the cash flow misclassifications category related to (i) Lease terminations resulted in a decrease to net cash flows provided by financing activities of \$0.3 million and an increase to net cash flows provided by operating activities of \$0.3 million for the year ended December 31, 2018. (Loss on sale of assets and lease terminations), (ii) Grossing up of borrowing and pay downs of a working capital loan on a foreign subsidiary resulting in an increase of \$19.8 million of borrowings from other loans and a decrease of \$20.1 million of principal repayments on other loans, both of which were within net cash provided by financing, and (iii) Cash flow classification adjustment related to incorrect interpretation of ASU 2016-15 (Classification of Certain Receipts and Cash Payments) in 2018 resulted in a line item classification change within cash flows provided by financing activities (Decrease of \$0.4 million of Third party debt modification and extinguishment costs and an increase of \$0.4 million of cash paid for debt issuance costs).

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the nine months ended September 30, 2019.

***For the nine months ended September 30, 2018***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the nine months ended September 30, 2018 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of \$7.4 million (\$5.0 million of depreciation and amortization and \$2.4 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of \$5.4 million (Additions to outsourcing contract costs) for the nine months ended September 30, 2018.

The misstatements in the cash flow misclassifications category related to (i) Lease terminations resulted in a decrease to net cash flows provided by financing activities of \$0.2 million and an increase to net cash flows provided by operating activities of \$0.2 million for the year ended December 31, 2018 (Loss on sale of assets and lease terminations), (ii) Cash flow classification adjustment related to incorrect interpretation of ASU 2016-15 (Classification of Certain Receipts and Cash Payments) in 2018 resulted in a net increase to cash flows provided by operating activities of \$0.1 million, a decrease to net cash flows provided by financing activities of \$0.1 million for the year ended December 31, 2018. (Increase of \$0.1 million to Debt modification and extinguishment costs, a decrease of \$1.1 million to third party debt modification and extinguishment costs and an increase of \$1.0 million to cash paid for debt issuance costs)

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the nine months ended September 30, 2018.

**21. Subsequent Events**

The Company performed its subsequent event procedures through June 8, 2020, the date these consolidated financial statements were made available for issuance.

**Receivables Securitization Facility**

On January 10, 2020, certain subsidiaries of the Company entered into a \$160.0 million accounts receivable securitization facility (the “A/R Facility”) with a five year term. In the A/R Facility, (i) Exela Receivables 1, LLC (the “A/R Borrower”), a wholly-owned indirect subsidiary of the Company, entered into a Loan and Security Agreement (the “A/R Loan Agreement”), dated as of January 10, 2020, with TPG Specialty Lending, Inc., as administrative agent (the “A/R Administrative Agent”), PNC Bank National Association, as LC Bank (the “LC Bank”), the lenders (each, an “A/R Lender” and collectively the “A/R Lenders”) and the Company, as initial servicer, pursuant to which the A/R Lenders will make loans (the “Loan”) to the A/R Borrower to be used to purchase certain receivables and related assets from its sole member, Exela Receivables Holdco, LLC (the “Parent SPE”), a wholly-owned indirect subsidiary of the Company,

(ii) sixteen other indirect, wholly-owned U.S. subsidiaries of the Company (collectively, the “Originators”) sold or contributed and will sell or contribute to the Parent SPE certain receivables and related assets in consideration for a combination of cash, equity in the Parent SPE and/or letters of credit issued by the LC Bank to the Originators; and (iii) the Parent SPE has sold or contributed and will sell or contribute to the Borrower certain receivables and related assets in consideration for a combination of cash, equity in the A/R Borrower and/or letters of credit issued by the LC Bank to the beneficiaries elected by Parent SPE.

The Company, the Parent SPE, the A/R Borrower and the Originators provide customary representations and covenants pursuant to the agreements entered into in connection with the A/R Facility. The A/R Loan Agreement provides for certain events of default upon the occurrence of which the A/R Administrative Agent may declare the A/R Facility’s termination date to have occurred and declare the outstanding Loan and all other obligations of the A/R Borrower to be immediately due and payable. The Company used the proceeds of the initial borrowings to repay outstanding revolving borrowings under the Company’s senior credit facility and to provide additional liquidity and funding for the ongoing business needs of the Company and its subsidiaries.

Pursuant to the A/R Loan Agreement, each of Company, the A/R Borrower, the Parent SPE and the Originators (the “Exela Parties”) is prohibited from amending or modifying any Existing Secured Debt Documents (as defined in the A/R Loan Agreement) if such amendment or modification could: (i) by its terms cause any Exela Party to be unable to perform its obligations under Transaction Documents (as defined in the A/R Loan Agreement), (ii) cause any inaccuracy or breach of any representation, warranty, or covenant of any Exela Party, (iii) could subject any existing or subsequently arising Collateral to an Adverse Claim (each as defined in the A/R Loan Agreement), or (iv) adversely affect any rights or remedies of the Lenders, the LC Bank and the A/R Administrative Agent under the A/R Facility. The A/R Borrower and Parent SPE were formed in December 2019, and are consolidated into the Company’s financial statements even though they had no material assets or operations during the year end December 31, 2019. The A/R Borrower and Parent SPE are bankruptcy remote entities and as such their assets are not available to creditors of the Company or any of its subsidiaries. Since January 10, 2020, the parties have amended and waived the A/R Facility several times to address contractually, the occurrence of certain events, including among other things, the delay in delivery of these Financial Statements, financial statements for the quarter ended March 31, 2020, and the Initial Servicer’s liquidity (as defined in the A/R Facility) falling below \$60.0 million.

#### **Sale of SourceHOV Tax, LLC**

On March 16, 2020, the Company and its indirect wholly owned subsidiaries, Merco Holdings, LLC and SourceHOV Tax, LLC entered into a Membership Interest Purchase Agreement with Gainline Source Intermediate Holdings LLC at which time Gainline Source Intermediate Holdings LLC acquired all of the outstanding membership interests of SourceHOV Tax for \$40.0 million, subject to adjustment as set forth in the purchase agreement of approximately \$2.0 million.

#### **Impact of COVID-19**

In December 2019, a novel strain of coronavirus was reported to have surfaced in Wuhan, China, which has and is continuing to spread throughout other parts of the world, including the United States. On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus disease (“COVID-19”) a “Public Health Emergency of International Concern,” and on March 11, 2020, the World Health Organization characterized the outbreak as a “pandemic”.

The Company is dependent on its workforce to deliver its solutions and services. Developments such as social distancing and stay-at-home orders from various jurisdictions may impact the Company’s ability to deploy its workforce effectively.

Additionally, COVID-19 has spread to most of the countries in the world and throughout the United States, creating a serious impact on customers, workforces, suppliers, disrupting economies and financial markets, and potentially leading to a world-wide economic downturn. While expected to be temporary, prolonged workforce disruptions may negatively impact sales in fiscal year 2020 and the Company’s overall liquidity.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Management is actively monitoring the global situation and its impact on the Company's financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate adverse effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

**Amendment to Credit Agreement**

Under the terms of each of the Credit Agreement, the Company was required to deliver to the lenders the December 31, 2019 audited financial statements by April 14, 2020, which the Company failed to do. On May 18, 2020, the Company amended the Credit Agreement to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. Pursuant to the amendment, the Company also amended the Credit Agreement to, among other things: restrict the borrower and its subsidiaries' ability to designate or invest in unrestricted subsidiaries; incur certain debt; create certain liens; make certain investments; pay certain dividends or other distributions on account of its equity interests; make certain asset sales or other dispositions (or utilize the proceeds of certain asset sales to reinvest in the business); or enter into certain affiliate transactions pursuant to the negative covenants under the Credit Agreement. Further, pursuant to the amendment, the borrower under the Credit Agreement is also required to maintain a minimum Liquidity (as defined in the amendment) of \$35.0 million. In the event the Company delivers the annual and quarterly financial statements described above within the time frames stated within such agreements (which the Company believes it has now satisfied with respect to the annual financial statements, but not with respect quarterly financial statements), the Company will, upon delivery of such financial statements, be in compliance with the Credit Agreement.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2019. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based upon that evaluation, as discussed below, our CEO and CFO have concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were not effective because of the material weaknesses in internal control over financial reporting described below.

Notwithstanding such material weaknesses in internal control over financial reporting, our management, including our CEO and CFO, has concluded that our consolidated financial statements as of and for the year ended December 31, 2019 and our restated consolidated balance sheets as of December 31, 2018 and the related consolidated statements of operations and consolidated statements of cash flows for the fiscal years ended December 31, 2018 and 2017, present fairly, in all material respects, our financial position, results of our operations and our cash flows for the periods presented in this Annual Report, in conformity with U.S. generally accepted accounting principles.

**Management’s Report on Internal Control over Financial Reporting**

Management, under the supervision of the board of directors, is responsible for establishing and maintaining adequate “internal control over financial reporting,” as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013) (the “COSO 2013 Framework”). Based on its assessment, our management, including our CEO and CFO, has concluded that our internal control over financial reporting was not effective as of December 31, 2019 due to material weaknesses in our internal control over financial reporting described below.

The Company did not design, implement and operate effective process-level control activities related to order-to-cash (including revenue, customer deposits, accounts receivable, deferred revenue and cost to obtain a contract), procure-to-pay (including operating expenses, accounts payable, and accrued liabilities), hire-to-pay (including compensation expense and accrued liabilities), leases (including accounting for the adoption of the new lease standard, right-of-use asset and lease liability), goodwill, restricted cash, share based compensation, journal entries and preparation of the consolidated financial statements, and other financial reporting processes, as well as accounting for significant unusual transactions.

In addition, the Company did not design, implement and operate effective process-level control activities related to the approval, authorization and disclosure of related party transactions.

The Company did not design, implement, and operate effective general information technology controls (GITCs) over user and privileged access to information technology (IT) systems at multiple components in order to adequately restrict access to appropriate finance and IT personnel and enforce appropriate segregation of duties. As a result, process-level automated control activities and manual control activities that are dependent upon information derived from IT systems were also ineffective.

These deficiencies in process-level control activities and GITCs were largely caused by an ineffective control environment as follows:

- There was not sufficient oversight and governance from the Board of Directors in the design, implementation and execution of internal control over financial reporting;
- The Company did not sufficiently establish structures, reporting lines and appropriate authorities and responsibilities; and
- The Company did not sufficiently attract, develop and retain competent resources and hold them accountable for their internal control responsibilities.

The deficiencies in the control environment also created deficiencies in the Company's risk assessment process, information and communication and monitoring activities as follows:

- Financial reporting objectives were not clearly specified to enable the identification and assessment of risks, including complying with applicable accounting standards;
- The risk assessment process failed to identify and assess risks of misstatement, including fraud risks, to ensure controls were designed and implemented to respond to those risks;
- Changes that could impact the system of internal controls were not identified and assessed;
- Relevant and quality information to support the functioning of internal controls was not consistently generated or used by the Company to support the operation of internal controls;
- Internal communication of information necessary to support the functioning of internal control was not sufficient;
- Communication with external parties on matters affecting the functioning of internal control was not complete;
- The Company did not sufficiently select, develop and perform ongoing evaluations to determine the components of internal control are present and functioning; and
- The evaluation and communication of internal control deficiencies, including monitoring corrective actions, were not performed in a timely manner.

As a result of these deficiencies, material misstatements were identified and corrected in the consolidated financial statements as of and for the year ended December 31, 2019, the restated consolidated financial statements as of and for the years ended December 31, 2018 and 2017 as further described in Note 3 to the consolidated financial statements and the interim financial statements for all interim periods during the years ended December 31, 2019 and 2018 as further described in Note 20 to the consolidated financial statements. Because there is a reasonable possibility that material misstatement of the consolidated financial statements will not be prevented or detected on a timely basis, we concluded

the deficiencies represent material weaknesses in our internal control over financial reporting and our internal control over financial reporting was not effective as of December 31, 2019.

Our independent registered public accounting firm, KPMG LLP, who audited the consolidated financial statements included in this annual report, has expressed an adverse report on the operating effectiveness of our internal control over financial reporting. KPMG LLP's report appears on page 74 of this Annual Report.

### **Remediation Plan**

We have identified and begun to implement several steps, as further described below, to remediate the material weaknesses described in this Item 9A and to enhance our overall control environment, risk assessment, control activities, monitoring and information and communication. We are committed to ensuring that our internal controls over financial reporting are designed and operating effectively.

- Increase the oversight of the Board of Directors over the remediation plan including the design, implementation and execution of internal controls.
- Establish adequate reporting structure to ensure appropriate authority guidelines are in place and are effective.
- Further develop the detailed remediation plan, with appropriate executive sponsorship and with the assistance of third-party specialists, to specifically address the material weaknesses related to the control environment, risk assessment, information and communication, and monitoring activities.
- Hire, train, and retain individuals with appropriate skills and experience, assign responsibilities and hold individuals accountable for their roles related to internal control over financial reporting.
- Design and implement controls over assigning authority and responsibility of management and others, including related party transactions.
- Design and implement a comprehensive and continuous risk assessment process to identify and assess risks of material misstatement (including fraud risks) and ensure that the impacted financial reporting processes and related internal controls are properly designed and in place to respond to those risks in our financial reporting.
- Enhance the design of existing control activities and implement additional process-level control activities and ensure they are operating effectively.
- Enhance the design of existing GITCs over user and privileged access to IT systems and ensure they are operating effectively to support process-level automated control activities and manual control activities that are dependent upon information derived from IT systems.
- Design and implement additional information and communications controls to ensure use of and obtaining relevant and quality information to allow operation of effective control activities, including internal and external communication.
- Design and implement additional monitoring controls to assess the consistent operation of controls and to remediate deficiencies.

Although we intend to complete the remediation process as promptly as possible, we cannot at this time estimate how long it will take to remediate these material weaknesses. In addition, we may discover additional material weaknesses that require additional time and resources to remediate and we may decide to take additional measures to address the material weaknesses or modify the remediation steps described above. Until these weaknesses are remediated, we plan to continue to perform additional analyses and other procedures to ensure that our consolidated financial statements are prepared in accordance with GAAP.

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

We made the following material changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) during the quarter ended December 31, 2019 to remediate previously reported material weaknesses in our internal control over financial reporting:

- Designed and implemented GITCs over change management and computer operations for the IT system used to account for leases at the Novitex component.

- Designed and implemented controls over service organizations used to process transactions on our behalf, including complementary end user controls.

There were no other changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 9B. OTHER INFORMATION**

None.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

Information about our executive officers is contained in the section titled “Executive Officers” in Part I of this Annual Report.

The other information required by this Item will be included in our Proxy Statement for the 2020 Annual General Meeting of Shareholders under the captions “Director Nominees,” “Continuing Members of the Board of Directors,” “Additional Information Concerning the Board of Directors of the Company,” Committees of the Board of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance,” which will be filed with the SEC no later than June 12, 2020 and is incorporated by reference in this Annual Report.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item will be included in our Proxy Statement for the 2020 Annual General Meeting of Shareholders under the captions “Executive Compensation” and “Director Remuneration,” which will be filed with the SEC no later than June 12, 2020 and is incorporated by reference in this Annual Report.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item will be included in our Proxy Statement for the 2020 Annual General Meeting of Shareholders under the caption “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance under Equity Compensation Plans,” which will be filed with the SEC no later than June 12, 2020 and is incorporated by reference in this Annual Report.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item will be included in our Proxy Statement for the 2020 Annual General Meeting of Shareholders under the captions “Certain Relationships and Related Party Transactions” and “Director Independence,” which will be filed with the SEC no later than June 12, 2020 and is incorporated by reference in this Annual Report.

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item will be included in our Proxy Statement for the 2020 Annual General Meeting of Shareholders under the caption “Independent Registered Public Accounting Firm Fees” which will be filed with the SEC no later than June 12, 2020 and is incorporated by reference in this Annual Report.

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

**a) (1) Financial Statements**

<a href="#">Report of Independent Registered Public Accounting Firm</a>	73
<a href="#">Consolidated Balance Sheets as of December 31, 2019 and 2018</a>	76
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2019, 2018, and 2017</a>	77
<a href="#">Consolidated Statements of Comprehensive Loss for the years ended December 31, 2019, 2018, and 2017</a>	78
<a href="#">Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2019, 2018, and 2017</a>	79
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018, and 2017</a>	82
<a href="#">Notes to the Consolidated Financial Statements</a>	83

**(a)(3) Exhibits**

<b>Exhibit No.</b>	<b>Description</b>	<b>Filed or Furnished Herewith</b>
2.1	<a href="#">Novitex 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(2)</a>	
3.1	<a href="#">Restated Certificate of Incorporation, dated July 12, 2017(4)</a>	
3.2	<a href="#">Second Amended and Restated Bylaws, dated November 6, 2019(9)</a>	
3.3	<a href="#">Certificate of Designations, Preferences, Rights and Limitations of Series A Perpetual Convertible Preferred Stock(4)</a>	
3.4	<a href="#">Waiver of Bylaws(5)</a>	
4.1	<a href="#">Specimen Common Stock Certificate(1)</a>	
4.2	<a href="#">Specimen Warrant Certificate(1)</a>	
4.3	<a href="#">Form of Warrant Agreement between Continental Stock Transfer &amp; Trust Company and the Registrant(1)</a>	
4.4	<a href="#">Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc. as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee(4)</a>	
4.5	<a href="#">First Supplemental Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc., as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee(4)</a>	
4.6	<a href="#">Description of Securities</a>	Filed
10.1	<a href="#">Modification Agreement, dated as of June 15, 2017(3)</a>	
10.2	<a href="#">Amended &amp; Restated Registration Rights Agreement, dated July 12, 2017, by and among the Company and the Holders(4)</a>	
10.3	<a href="#">Exela Technologies, Inc. Director Nomination Agreement, dated July 12, 2017, by and among the Company, the HGM Group and Ex-Sigma 2 LLC(4)</a>	

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Exhibit No.	Description	Filed or Furnished Herewith
10.4	<a href="#">First Lien Credit Agreement, dated July 12, 2017, by and among Exela Intermediate Holdings LLC, Exela Intermediate LLC, the Lenders Party Thereto, Royal Bank of Canada, RBC Capital Markets, Credit Suisse Securities (USA) LLC, Natixis, New York Branch and KKR Capital Markets LLC(4)</a>	
10.5	<a href="#">First Amendment to First Lien Credit Agreement, dated July 13, 2018, by and among Exela Intermediate Holdings LLC, Exela Intermediate LLC, the Lenders Party Thereto, Royal Bank of Canada, RBC Capital Markets, Credit Suisse Securities (USA) LLC, Natixis, New York Branch and KKR Capital Markets LLC(6)</a>	
10.6	<a href="#">Second Amendment to First Lien Credit Agreement, dated as of April, 16, 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.(7)</a>	
10.7	<a href="#">Exela Technologies Inc. 2018 Stock Incentive Plan.(8)</a>	
10.8	<a href="#">Form of Option Grant Notice and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan.(8)</a>	
10.9	<a href="#">Form of Restricted Stock Unit Grant and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan.(8)</a>	
10.10	<a href="#">Exela Technologies, Inc. Executive Officer Annual Bonus Plan.(9)</a>	
10.11	<a href="#">Loan and Security Agreement, dated as of January 10, 2020, by and among Exela Receivables 1, LLC, as borrower, Exela Technologies, Inc., as initial servicer, TPG Specialty Lending, Inc., as administrative agent, PNC Bank, National Association, as LC Bank, and the lenders from time to time party thereto.(10)</a>	
10.12	<a href="#">First Tier Purchase and Sale Agreement, dated as of January 10, 2020, by and among Exela Receivables Holdco, LLC, as purchaser, Exela Technologies, Inc., as initial servicer, and BancTec, Inc., Deliverex, LLC, Economic Research Services, Inc., Exela Enterprise Solutions, Inc., SourceHOV Healthcare, Inc., United Information Services, Inc., HOV Enterprise Services, Inc., HOV Services, Inc., HOV Services, LLC, J&amp;B Software, Inc., Novitex Government Solutions, LLC, Regulus Group II LLC, Regulus Group LLC, Regulus Integrated Solutions LLC, SourceCorp BPS Inc. and Sourcecorp Management, Inc., as originators.(10)</a>	
10.13	<a href="#">Second Tier Purchase and Sale Agreement, dated as of January 10, 2020, by and among Exela Receivables 1, LLC, Exela Receivables Holdco, LLC, and Exela Technologies, Inc.(10)</a>	
10.14	<a href="#">Sub-Servicing Agreement, dated as of January 10, 2020, by and among Exela Technologies, Inc., as initial servicer, and BancTec, Inc., Deliverex, LLC, Economic Research Services, Inc., Exela Enterprise Solutions, Inc., SourceHOV Healthcare, Inc., United Information Services, Inc., HOV Enterprise Services, Inc., HOV Services, Inc., HOV Services, LLC, J&amp;B Software, Inc., Novitex Government Solutions, LLC, Regulus Group II LLC, Regulus Group LLC, Regulus Integrated Solutions LLC, SourceCorp BPS Inc., Sourcecorp Management, Inc., as sub-servicers.(10)</a>	
10.15	<a href="#">Guaranty, dated as of January 10, 2010, between Exela Receivables Holdco, LLC and TPG Specialty Lending, Inc.(10)</a>	
10.16	<a href="#">Performance Guaranty, dated as of January 10, 2010, between Exela Technologies, Inc. and TPG Specialty Lending, Inc.(10)</a>	
10.17	<a href="#">Membership Interest Purchase Agreement, dated as of March 16, 2020, by and among SourceHOV Tax, LLC, Merco Holdings, LLC, Exela Technologies, Inc., and Gainline Source Intermediate Holdings LLC (11)</a>	

Exhibit No.	Description	Filed or Furnished Herewith
10.18	<a href="#">First Amendment to Loan and Security Agreement, First Tier Purchase and Sale Agreement and Second Tier Purchase and Sale Agreement, dated as of March 16, 2020, by and among Exela Receivables 1, LLC, Exela Technologies, Inc., Exela Receivables Holdco, LLC, the Originators, the Lenders, and TPG Specialty Lending, Inc. (11)</a>	
21.1	<a href="#">Subsidiaries of Exela Technologies Inc.</a>	Filed
23.1	<a href="#">Consent of KPMG LLP</a>	Filed
31.1	<a href="#">Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002</a>	Filed
31.2	<a href="#">Certification of the Principal Financial and Accounting Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002</a>	Filed
32.1	<a href="#">Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002</a>	Furnished
32.2	<a href="#">Certification of the Principal Financial and Accounting Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002</a>	Furnished
101.INS	XBRL Instance Document	Filed
101.SCH	XBRL Taxonomy Extension Schema	Filed
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101)	

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- (1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-198988).
  - (2) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on February 22, 2017.
  - (3) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on June 21, 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 December 21, 2017.
  - (6) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 17, 2018.
  - (7) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on April 17, 2019.
  - (8) Incorporated by reference to the Registrants' Quarterly Report on Form 10-Q, filed on May 10, 2019.
  - (9) Incorporated by reference to the Registrants' Quarterly Report on Form 10-Q, filed on November 12, 2019.
  - (10) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on January 15, 2020.
  - (11) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on March 17, 2020.



## SIGNATURES

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

Dated:  
June 8, 2020

By: /s/ RONALD COGBURN  
Ronald Cogburn, *Chief Executive Officer*

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

Dated:  
June 8, 2020

By: /s/ RONALD COGBURN  
Ronald Cogburn, *Chief Executive Officer*  
*(Principal Executive Officer) and Director*

Dated:  
June 8, 2020

By: /s/ SHRIKANT SORTUR  
Shrikant Sortur, *Chief Financial Officer*  
*(Principal Financial Officer and Principal Accounting Officer)*

Dated:  
June 8, 2020

By: /s/ PAR CHADHA  
Par Chadha, *Chairman of the Board of Directors*

Dated:  
June 8, 2020

By: /s/ MARTIN P. AKINS  
Martin P. Akins, *Director*

Dated:  
June 8, 2020

By: /s/ MARC A. BEILINSON  
Marc A. Beilinson, *Director*

Dated:  
June 8, 2020

By: /s/ J. COLEY CLARK  
J. Coley Clark, *Director*

Dated:  
June 8, 2020

By: /s/ JOHN H. REXFORD  
John H. Rexford, *Director*

Dated:  
June 8, 2020

By: /s/ JAMES G. REYNOLDS  
James G. Reynolds, *Director*

Dated:  
June 8, 2020

By: /s/ WILLIAM L. TRANSIER  
William L. Transier, *Director*