

ModusLink Global Solutions Inc
Form 10-Q
December 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2014

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 001-35319

ModusLink Global Solutions, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-2921333
(I.R.S. Employer
Identification No.)

1601 Trapelo Road, Suite 170

Waltham, Massachusetts
(Address of principal executive offices)

02451
(Zip Code)

(781) 663-5000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 30, 2014, there were 52,115,711 shares issued and outstanding of the registrant's Common Stock, \$0.01 par value per share.

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MODUSLINK GLOBAL SOLUTIONS, INC.

FORM 10-Q

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Table of Contents**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except share amounts)****(unaudited)**

	October 31, 2014	July 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 104,308	\$ 183,515
Trading securities	72,097	22,793
Accounts receivable, trade, net of allowance for doubtful accounts of \$61 and \$63 at October 31, 2014 and July 31, 2014, respectively	157,436	123,948
Inventories	54,196	65,269
Prepaid expenses and other current assets	19,759	10,243
Total current assets	407,796	405,768
Property and equipment, net	23,539	25,126
Investments in affiliates	7,199	7,172
Goodwill	3,058	3,058
Other intangible assets, net	399	667
Other assets	8,809	9,855
Total assets	\$ 450,800	\$ 451,646
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 103,289	\$ 105,045
Accrued restructuring	2,025	2,246
Accrued expenses	38,940	39,544
Other current liabilities	54,680	51,759
Total current liabilities	198,934	198,594
Long-term portion of accrued restructuring		39
Notes payable	74,443	73,391
Other long-term liabilities	8,167	8,004
Long-term liabilities	82,610	81,434
Total liabilities	281,544	280,028

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Stockholders' equity:

Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding shares at October 31, 2014 and July 31, 2014

Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 52,105,338 issued and outstanding shares at October 31, 2014; 52,100,763 issued and outstanding shares at July 31, 2014

	521	521
Additional paid-in capital	7,450,964	7,450,541
Accumulated deficit	(7,293,190)	(7,293,412)
Accumulated other comprehensive income	10,961	13,968
Total stockholders' equity	169,256	171,618
Total liabilities and stockholders' equity	\$ 450,800	\$ 451,646

See accompanying notes to unaudited condensed consolidated financial statements

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended	
	October 31,	
	2014	2013
Net revenue	\$ 187,444	\$ 191,415
Cost of revenue	168,606	169,420
Gross profit	18,838	21,995
Operating expenses		
Selling, general and administrative	15,522	18,115
Amortization of intangible assets	268	280
Restructuring, net	1,901	979
Total operating expenses	17,691	19,374
Operating income	1,147	2,621
Other income (expense):		
Interest income	64	102
Interest expense	(2,667)	(213)
Other gains (losses), net	2,827	(701)
Total other income (expense)	224	(812)
Income from continuing operations before income taxes	1,371	1,809
Income tax expense	1,157	1,137
Equity in (gains) losses of affiliates, net of tax	(8)	134
Income from continuing operations	222	538
Discontinued operations, net of income taxes:		
Income from discontinued operations		79
Net Income	\$ 222	\$ 617
Basic net income per share:		
Income from continuing operations	\$ 0.00	\$ 0.01
Income from discontinued operations	0.00	0.00

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Net Income	\$ 0.00	\$ 0.01
Diluted net income per share:		
Income from continuing operations	\$ 0.00	\$ 0.01
Income from discontinued operations	0.00	0.00
Net Income	\$ 0.00	\$ 0.01
Weighted average common shares used in:		
Basic earnings per share	51,875	51,438
Diluted earnings per share	52,004	51,493
See accompanying notes to unaudited condensed consolidated financial statements		

Table of Contents**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(in thousands)****(unaudited)**

	Three Months Ended October 31,	
	2014	2013
Net Income	\$ 222	\$ 617
Other comprehensive income:		
Foreign currency translation adjustment	(2,639)	2,079
Pension liability adjustments, net of tax	(361)	
Net unrealized holding loss on securities, net of tax	(7)	(6)
Other comprehensive income (loss)	(3,007)	2,073
Comprehensive income (loss)	\$ (2,785)	\$ 2,690

See accompanying notes to unaudited condensed consolidated financial statements

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended	
	October 31,	
	2014	2013
Cash flows from operating activities of continuing operations:		
Net income	\$ 222	\$ 617
Income from discontinued operations		79
Income from continuing operations	222	538
Adjustments to reconcile income from continuing operations to net cash used in operating activities of continuing operations:		
Depreciation	2,810	3,474
Amortization of intangible assets	268	280
Amortization of deferred financing costs	122	118
Accretion of debt discount	1,027	
Share-based compensation	409	512
Non-operating (gains) losses, net	(2,827)	701
Equity in (gains) losses of affiliates and impairments	(8)	134
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(36,287)	(17,979)
Inventories	9,392	(18,680)
Prepaid expenses and other current assets	(12,198)	(364)
Accounts payable, accrued restructuring and accrued expenses	(1,167)	20,063
Refundable and accrued income taxes, net	1,525	1,221
Other assets and liabilities	13,097	453
Net cash used in operating activities of continuing operations	(23,615)	(9,529)
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(1,865)	(974)
Purchase of trading securities	(69,221)	
Investments in affiliates	(27)	
Proceeds from investments in affiliates	8	
Net cash used in investing activities of continuing operations	(71,105)	(974)
Cash flows from financing activities of continuing operations:		
Repayments on capital lease obligations	(34)	(22)
Proceeds from revolving line of credit	21,265	

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Repayments of revolving line of credit	(4,453)	
Proceeds from issuance of common stock	14	
Repurchase of common stock		(131)
Net cash provided by (used in) financing activities of continuing operations	16,792	(153)
Cash flows from discontinued operations:		
Operating cash flows		(579)
Net cash used in discontinued operations		(579)
Net effect of exchange rate changes on cash and cash equivalents	(1,279)	872
Net decrease in cash and cash equivalents	(79,207)	(10,363)
Cash and cash equivalents at beginning of period	183,515	77,916
Cash and cash equivalents at end of period	\$ 104,308	\$ 67,553

See accompanying notes to unaudited condensed consolidated financial statements

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) NATURE OF OPERATIONS

ModusLink Global Solutions, Inc. (together with its consolidated subsidiaries, ModusLink Global Solutions or the Company), through its wholly-owned subsidiaries, ModusLink Corporation (ModusLink) and ModusLink PTS, Inc. (ModusLink PTS), executes comprehensive supply chain and logistics services (the Supply Chain Business) that are designed to improve clients' revenue, cost, sustainability and customer experience objectives. ModusLink Global Solutions provides services to leading companies in consumer electronics, communications, computing, medical devices, software, and retail. The Company's operations are supported by a global footprint that includes more than 25 sites across North America, Europe and the Asia Pacific region.

The Company previously operated under the names CMGI, Inc. and CMG Information Services, Inc. and was incorporated in Delaware in 1986.

(2) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2014, which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on October 14, 2014. The results for the three months ended October 31, 2014 are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

All significant intercompany transactions and balances have been eliminated in consolidation.

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the period ended October 31, 2014, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends ASC 205, Presentation of Financial Statements, and ASC 360, Property, Plant and Equipment. This ASU defines a discontinued operation as a component or group of components that is disposed of or meets the

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criteria as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. This ASU requires additional disclosures about discontinued operations and new disclosures for components of an entity that are held for sale or disposed of and are individually significant but do not qualify for presentation as a discontinued operation. The requirements are effective prospectively starting with our first quarter of fiscal year 2016, and is related to presentation only. The adoption will not have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The effective date will be the first quarter of fiscal year 2018 using one of two retrospective application methods or a cumulative effect approach. The Company is evaluating the potential effects on the consolidated financial statements.

In August 2014, the FASB issued an amendment to the accounting guidance related to the evaluation of an entity's ability to continue as a going concern. The amendment establishes management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern in connection with preparing financial statements for each annual and interim reporting period. The update also gives guidance to determine whether to disclose information about relevant conditions and event when there is substantial doubt about an entity's ability to continue as a going concern. This guidance will be effective for the Company as of December 15, 2016. The new guidance will not have an effect on the Company's consolidated financial statements.

(4) INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined by both the moving average and the first-in, first-out methods. Materials that the Company procures on behalf of its clients that are included in inventory typically include materials such as compact discs, printed materials, manuals, labels, hardware accessories, flash memory, consumer packaging, shipping boxes and labels, power cords and cables for client-owned electronic devices.

Inventories consisted of the following:

	October 31, 2014	July 31, 2014
	(In thousands)	
Raw materials	\$ 45,655	\$ 51,179
Work-in-process	373	910
Finished goods	8,168	13,180
	\$ 54,196	\$ 65,269

The Company continuously monitors inventory balances and records inventory write-downs for any excess of the cost of the inventory over its estimated market value. The Company also monitors inventory balances for obsolescence and excess quantities as compared to projected demand. The Company's inventory methodology is based on assumptions

about average shelf life of inventory, forecasted volumes, forecasted selling prices, write-down history of inventory, market conditions and contractual arrangements with clients. While such assumptions may change from period to period, in determining the net realizable value of its inventories, the Company uses the best information available as of the balance sheet date. If actual market conditions are less favorable than those projected, or the Company experiences a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, additional inventory write-downs may be required. Once established, write-downs of inventory are considered permanent adjustments to the cost basis of inventory and cannot be reversed due to subsequent increases in demand forecasts.

(5) INVESTMENTS

Trading securities

Near the end of the quarter ended July 31, 2014, the Company acquired \$12.9 million in convertible debentures of a publicly traded entity. At this time the Company is uncertain with respect to the holding period of these securities, therefore these securities are classified as trading securities. These trading securities offer higher yields than are currently available from money market securities or other equivalent investments. As of July 31, 2014, the trades associated with these securities had not settled and, as such, the payment associated with

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the acquisition of these securities had not been made. The liability associated with this payment is classified under other current liabilities on our balance sheet. Additionally, near the end of the quarter ended July 31, 2014 the Company acquired \$9.9 million in common stock of a publicly traded entity. As of July 31, 2014, most of the trades associated with these securities had not settled and, as such, \$9.4 million of the payment associated with the acquisition of these securities had not been made. The liability associated with these payments is classified under other current liabilities on our balance sheet as of July 31, 2014. Unrealized gains and losses associated with these securities were immaterial for the fiscal year ended July 31, 2014.

During the quarter ended October 31, 2014, the Company continued its investing activities and acquired additional convertible debentures of a publicly traded entity and acquired additional common stock of a publicly traded entity. As of October 31, 2014 the Company had \$72.1 million in investments in trading securities, \$31.9 million of which were the publicly traded convertible debentures. The Company's purchases of the publicly traded convertible debentures have been done on the open market. The chairman of the board of the company issuing the publicly traded convertible debentures is also the chairman of the board of ModusLink Global Solutions, Inc. The trading securities were classified within Level 1 of the fair value hierarchy.

@Ventures

The Company maintains interests in several early-stage privately held technology companies primarily through its interests in two venture capital funds which invest as @Ventures. These investments are generally made in connection with a round of financing with other third-party investors.

During the three months ended October 31, 2014, approximately \$27 thousand was invested by the Company in privately held companies. During the three months ended October 31, 2013 no investments were made by the Company in privately held companies. At October 31, 2014 and July 31, 2014, the Company's carrying value of investments in privately held companies was approximately \$7.2 million for both periods. No impairment charges were recorded during the three months ended October 31, 2014 and 2013. During the three months ended October 31, 2014, the Company received an immaterial distribution from its investments. During the three months ended October 31, 2013, the Company did not receive any distributions from its investments.

Investments in which the Company's interest is less than 20% and which are not classified as available-for-sale securities are carried at the lower of cost or net realizable value unless it is determined that the Company exercises significant influence over the investee company, in which case the equity method of accounting is used. For those investments in which the Company's voting interest is between 20% and 50%, the equity method of accounting is generally used. Under this method, the investment balance, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the investee company as they occur, limited to the extent of the Company's investment in, advances to and commitments for the investee. These adjustments are reflected in Equity in (gains) losses of affiliates, net of tax in the Company's Consolidated Statements of Operations.

The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular investment's net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee's cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes and competition. The valuation process is based primarily on information that the Company requests from these privately held companies which are not subject to the same disclosure and audit requirements as those of U.S. public companies. As such, the reliability and the accuracy of the data may vary.

(6) GOODWILL

The Company conducts its goodwill impairment test on July 31 of each fiscal year. In addition, if and when events or circumstances change that could reduce the fair value of any of its reporting units below its carrying value, an interim test is performed. In making this assessment, the Company relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and transactions and marketplace data. The Company's reporting units are: Americas, Asia, Europe and its All Other category, which primarily represents the e-Business operating segment.

The Company's remaining goodwill of \$3.1 million as of October 31, 2014 and July 31, 2014 relates to the Company's e-Business reporting unit. There were no indicators of impairment identified related to the Company's e-Business reporting unit during the three months ended October 31, 2014.

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The following table reflects the components of Other Current Liabilities :

	October 31, 2014	July 31, 2014
	(In thousands)	
Accrued pricing liabilities	\$ 18,882	\$ 19,301
Unsettled trading securities liabilities		22,430
Line of credit facility	21,265	4,453
Other	14,533	5,575
	\$ 54,680	\$ 51,759

As of October 31, 2014 and July 31, 2014, the Company had accrued pricing liabilities of approximately \$18.9 million and \$19.3 million, respectively. As previously reported by the Company, several adjustments were made to its historic financial statements for periods ending on or before January 31, 2012, the most significant of which related to the treatment of vendor rebates in its pricing policies. Where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract (collectively referred to as pricing adjustments), the Company concluded that these amounts were not properly recorded as revenue. Accordingly, revenue was reduced by an equivalent amount for the period that the rebate was estimated to have affected. A corresponding liability for the same amount was recorded in that period (referred to as accrued pricing liabilities). The Company believes that it may not ultimately be required to pay all of the accrued pricing liabilities, due in part to the nature of the interactions with its clients. The remaining accrued pricing liabilities at October 31, 2014 will be derecognized when there is sufficient information for the Company to conclude that such liabilities have been extinguished, which may occur through payment, legal release, or other legal or factual determination.

(8) RESTRUCTURING, NET

Restructuring and other costs for the three months ended October 31, 2014 primarily included continuing charges for personnel reductions and facility consolidations in an effort to streamline operations across our global supply chain operations. It is expected that the payments of employee-related charges will be substantially completed during the fiscal year ended July 31, 2015. The remaining contractual obligations primarily relate to facility lease obligations for vacant space resulting from the previous restructuring activities of the Company. The Company anticipates that these contractual obligations will be substantially fulfilled by August 2015.

The \$1.9 million restructuring charge recorded during the three months ended October 31, 2014 primarily consisted of \$0.4 million, \$0.5 million and \$1.0 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 93 employees in our global supply chain. The \$0.9 million restructuring charge recorded during the three months ended October 31, 2013 primarily consisted of approximately \$0.2 million, \$0.1 million, and \$0.6 million of employee-related costs in the Americas, Asia, and Europe, respectively, related to the workforce reduction of 49 employees in our global supply chain operations.

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The following tables summarize the activities related to the restructuring accrual by expense category and by reportable segment for the three months ended October 31, 2014:

	Employee Related Expenses	Contractual Obligations	Total
Accrued restructuring balance at July 31, 2014	\$ 1,687	\$ 598	\$ 2,285
Restructuring charges	1,822	137	1,959
Restructuring adjustments	(3)	(55)	(58)
Cash paid	(1,816)	(227)	(2,043)
Non-cash adjustments	(79)	(39)	(118)
Accrued restructuring balance at October 31, 2014	\$ 1,611	\$ 414	\$ 2,025

	Americas	Asia	Europe	All Other	Consolidated Total
	(In thousands)				
Accrued restructuring balance at July 31, 2014	\$ 195	\$ 274	\$ 1,750	\$ 66	\$ 2,285
Restructuring charges	408	559	992		1,959
Restructuring adjustments	6	(54)	(10)		(58)
Cash paid	(217)	(528)	(1,288)	(10)	(2,043)
Non-cash adjustments		(7)	(111)		(118)
Accrued restructuring balance at October 31, 2014	\$ 392	\$ 244	\$ 1,333	\$ 56	\$ 2,025

The net restructuring charges for the three months ended October 31, 2014 and 2013 would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

	Three Months Ended October 31, 2014 2013 (In thousands)	
Cost of revenue	\$ 1,882	\$ 680
Selling, general and administrative	19	299
	\$ 1,901	\$ 979

(9) DEBT

Notes Payable

On March 18, 2014, the Company entered into an indenture (the *Indenture*) with Wells Fargo Bank, National Association, as trustee (the *Trustee*), relating to the Company's issuance of \$100 million of 5.25% Convertible Senior Notes (the *Notes*). The Notes bear interest at the rate of 5.25% per year, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2014. The Notes will mature on March 1, 2019 unless earlier repurchased by the Company or converted by the holder in accordance with their terms prior to such maturity date.

Holders of the Notes may convert all or any portion of their notes, in multiples of \$1,000 principal amount, at their option at any-time prior to the close of business or the business day immediately preceding the maturity date. Each \$1,000 of principal of the Notes will initially be convertible into 166.2593 shares of our common stock, which is equivalent to an initial conversion price of

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approximately \$6.01 per share, subject to adjustment upon the occurrence of certain events, or, if the Company obtains the required consent from its stockholders, into shares of the Company's common stock, cash or a combination of cash and shares of its common stock, at the Company's election. If the Company has received stockholder approval, and it elects to settle conversions through the payment of cash or payment or delivery of a combination of cash and shares, the Company's conversion obligation will be based on the volume weighted average prices (VWAP) of its common stock for each VWAP trading day in a 40 VWAP trading day observation period. The Notes and any of the shares of common stock issuable upon conversion have not been registered.

Holders will have the right to require the Company to repurchase their Notes, at a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, upon the occurrence of certain fundamental changes, subject to certain conditions. No fundamental changes occurred during the three months ended October 31, 2014.

The Company may not redeem the Notes prior to the mandatory date, and no sinking fund is provided for the Notes. The Company will have the right to elect to cause the mandatory conversion of the Notes in whole, and not in part, at any time on or after March 6, 2017, if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company notifies holders of its election to mandatorily convert the Notes, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company notifies holders of its election to mandatorily convert the notes.

The Company has valued the debt using similar nonconvertible debt as of the original issuance date of the Notes and bifurcated the conversion option associated with the Notes from the host debt instrument and recorded the conversion option of \$28.1 million in stockholders' equity prior to the allocation of debt issuance costs. The initial value of the equity component, which reflects the equity conversion feature, is equal to the initial debt discount. The resulting debt discount on the Notes is being accreted to interest expense at the effective interest rate over the estimated life of the Notes. The equity component is included in the additional paid-in-capital portion of stockholders' equity on the Company's consolidated balance sheet. In addition, the debt issuance costs of \$3.4 million are allocated between the liability and equity components in proportion to the allocation of the proceeds. The issuance costs allocated to the liability component (\$2.5 million) are capitalized as a long-term asset on the Company's balance sheet and amortized as additional interest expense over the term of the Notes. This amount has been classified as long-term as the underlying debt instrument has been classified as a long-term liability in the Company's balance sheet. The issuance costs allocated to the equity component is recorded as a reduction to additional paid-in capital. The fair value of our Notes payable, calculated as of the closing price of the traded securities, was \$89.2 million and \$93.8 million as of October 31, 2014 and July 31, 2014, respectively. This value does not represent the settlement value of these long-term debt liabilities to us. The fair value of the Notes payable could vary each period based on fluctuations in market interest rates, as well as changes to our credit ratings. The Notes payable are traded and their fair values are based upon traded prices as of the reporting dates. As of October 31, 2014, the net carrying value of the Notes was \$74.4 million.

**October 31,
2014
(In thousands)**

Carrying amount of equity component (net of allocated debt issuance costs)	\$ 27,177
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Principal amount of Notes	\$	100,000
Unamortized debt discount		(25,557)
Net carrying amount	\$	74,443

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As of October 31, 2014, the remaining period over which the unamortized discount will be amortized 52 months.

	Three months ended October 31, 2014 (In thousands)	
Interest expense related to contractual interest coupon	\$	1,313
Interest expense related to accretion of the discount		1,027
Interest expense related to debt issuance costs		91
	\$	2,431

During the three months ended October 31, 2014, we recognized interest expense of \$2.4 million. The effective interest rate on the Notes, including amortization of debt issuance costs and accretion of the discount, is 14.04%. The notes bear interest of 5.25%.

Wells Fargo Bank Credit Facility

On October 31, 2012, the Company and certain of its domestic subsidiaries entered into a Credit Agreement (the Credit Facility) with Wells Fargo Bank, National Association as lender and agent for the lenders party thereto. The Credit Facility provided a senior secured revolving credit facility up to an initial aggregate principal amount of \$50.0 million or the calculated borrowing base and was secured by substantially all of the domestic assets of the Company. As of July 31, 2013, the calculated borrowing base was \$29.9 million. The Credit Facility was scheduled to terminate on October 31, 2015. Interest on the Credit Facility was based on the Company's options of LIBOR plus 2.5% or the base rate plus 1.5%. The Credit Facility included one restrictive financial covenant, which is minimum EBITDA, and restrictions that limited the ability of the Company, to among other things, create liens, incur additional indebtedness, make investments, or dispose of assets or property without prior approval from the lenders.

On March 13, 2014, the Company entered into a Second Amendment to Credit Facility, which amended the Company's Credit Agreement, dated as of October 31, 2012, as amended by the First Amendment to Credit Agreement dated December 18, 2013. The Amendment modified certain provisions of the Credit Agreement that would have restricted or otherwise affected the issuance of the Notes and the use of proceeds therefrom, the conversion of the Notes into common stock of the Company, and the payment of interest on the Notes. Effective as of April 16, 2014, the Company voluntarily terminated the Credit Facility. The Company did not have any outstanding indebtedness related to the Credit Facility as of October 31, 2014.

PNC Bank Credit Facility

On June 30, 2014, two direct and wholly owned subsidiaries of the Company (the Borrowers) entered into a revolving credit and security agreement (the Credit Agreement), as borrowers and guarantors, with PNC Bank and National Association, as lender and as agent, respectively.

The Credit Agreement has a five (5) year term which expires on June 30, 2019. It includes a maximum credit commitment of \$50.0 million, is available for letters of credit (with a sublimit of \$5.0 million) and has a \$20.0 million

uncommitted accordion feature. The actual maximum credit available under the Credit Agreement varies from time to time and is determined by calculating the applicable borrowing base, which is based upon applicable percentages of the values of eligible accounts receivable and eligible inventory minus reserves determined by the Agent (including other reserves that the Agent may establish from time to time in its permitted discretion), all as specified in the Credit Agreement.

Generally, borrowings under the Credit Agreement bear interest at a rate per annum equal to, at the Borrowers' option, either (a) LIBOR (adjusted to reflect any required bank reserves) for an interest period equal to one, two or three months (as selected by the Borrowers) plus a margin of 2.25% per annum or (b) a base rate determined by reference to the highest of (1) the base commercial lending rate publicly announced from time to time by PNC Bank, National Association, (2) the sum of the Federal Funds Open Rate in effect on such day plus one half of one percent (0.5%) per annum, or (3) the LIBOR rate (adjusted to reflect any required bank reserves) in effect on such day plus 1.00% per annum. In addition to paying interest on outstanding principal under the Credit Agreement, the Borrowers are required to pay a commitment fee, in respect of the unutilized commitments thereunder, of 0.25% per annum, paid quarterly in arrears. The Borrowers are also required to pay a customary letter of credit fee equal to the applicable margin on revolving credit LIBOR loans and fronting fees.

Obligations under the Credit Agreement are guaranteed by the Borrowers' existing and future direct and indirect wholly-owned domestic subsidiaries, subject to certain limited exceptions; and the Credit Agreement is secured by security interests in substantially all the Borrowers' assets and the assets of each subsidiary guarantor, whether owned as of the closing or thereafter acquired, including

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a pledge of 100.0% of the equity interests of each subsidiary guarantor that is a domestic entity (subject to certain limited exceptions) and 65.0% of the voting equity interests of any direct first tier foreign entity owned by either Borrower or by a subsidiary guarantor. The Company is not a borrower or a guarantor under the Credit Agreement.

The Credit Agreement contains certain customary negative covenants, which include limitations on mergers and acquisitions, the sale of assets, liens, guarantees, investments, loans, capital expenditures, dividends, indebtedness, changes in the nature of business, transactions with affiliates, the creation of subsidiaries, changes in fiscal year and accounting practices, changes to governing documents, compliance with certain statutes, and prepayments of certain indebtedness. The Credit Agreement also contains certain customary affirmative covenants (including periodic reporting obligations) and events of default, including upon a change of control. The Credit Agreement requires compliance with certain financial covenants providing for maintenance of specified liquidity, maintenance of a minimum fixed charge coverage ratio and/or maintenance of a maximum leverage ratio following the occurrence of certain events and/or prior to taking certain actions, all as more fully described in the Credit Agreement. The Company believes that the Credit Agreement provides greater financial flexibility to the Company and the Borrowers and may enhance their ability to consummate one or several larger and/or more attractive acquisitions and should provide our clients and/or potential clients with greater confidence in the Company's and the Borrowers' liquidity. During the three months ended October 31, 2014, the Company did not meet the criteria that would cause its financial covenants to be effective. As of October 31, 2014 and July 31, 2014, the Company had \$21.3 million and \$4.5 million outstanding on the PNC Bank credit facility, respectively, which is included in other current liabilities on the consolidated balance sheet.

(10) CONTINGENCIES

On February 15, 2012, the staff of the Division of Enforcement of the SEC initiated with the Company an informal inquiry, and later a formal action, regarding the Company's treatment of rebates associated with volume discounts provided by vendors. To date, the SEC has not asserted any formal claims.

On June 11, 2012, we announced the pending restatement of the Company's financial statements for the periods ending on or before April 30, 2012 (the June 11, 2012 Announcement), related to the Company's accounting treatment of rebates associated with volume discounts provided by vendors. The restated financial statements were filed on January 11, 2013. After the June 11, 2012 Announcement, stockholders of the Company commenced three purported class actions in the United States District Court for the District of Massachusetts arising from the circumstances described in the June 11, 2012 Announcement (the Securities Actions), entitled, respectively:

Irene Collier, Individually And On Behalf Of All Others Similarly Situated, vs. ModusLink Global Solutions, Inc., Joseph C. Lawler and Steven G. Crane, Case 1:12-CV-11044-DJC, filed June 12, 2012 (the Collier Action);

Alexander Shnerer Individually And On Behalf Of All Others Similarly Situated, vs. ModusLink Global Solutions, Inc., Joseph C. Lawler and Steven G. Crane, Case 1:12-CV-11078-DJC, filed June 18, 2012 (the Shnerer Action); and

Harold Heszkel, Individually and on Behalf of All Others Similarly Situated v. ModusLink Global Solutions, Inc., Joseph C. Lawler, and Steven G. Crane, Case 1:12-CV-11279-DJC, filed July 11, 2012

(the Heszkel Action).

Each of the Securities Actions purports to be brought on behalf of those persons who purchased shares of the Company between September 26, 2007 through and including June 8, 2012 (the Class Period) and alleges that failure to timely disclose the issues raised in the June 11, 2012 Announcement during the Class Period rendered defendants public statements concerning the Company s financial condition materially false and misleading in violation of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder. On February 11, 2013, plaintiffs filed a consolidated amended complaint in the Securities Actions. The Company moved to dismiss the amended complaint on March 11, 2013. On March 26, 2014, following a November 8, 2013 hearing, the Court denied the Company s motion to dismiss, and, on May 26, 2014, the Company answered the Amended Complaint. In October 2014, the parties agreed to a stipulation for a proposed \$4 million class settlement to be covered by insurance proceeds, subject to Court approval. On November 24, 2014, the Court entered an order preliminarily approving the proposed settlement, certification of the settlement class, and provision of notice of the settlement to the settling class. A final settlement approval hearing before the court is now scheduled for March 11, 2015. Although there can be no assurance to the ultimate outcome, the Company believes it has meritorious defense, will deny liability, and intends to defend this litigation vigorously.

On October 15, 2014, a Company shareholder commenced a purported derivative action in the Court of Chancery of the State of Delaware against the Company, entitled *Mohammad Ladjevardian v. Anthony Bergamo, Jeffrey J. Fenton, Glen M. Kassan, Warren G. Lichtenstein, Jeffrey S. Wald, and Philip E. Lengyel, Steel Partners Holdings L.P., Handy & Harman Ltd.; Defendants, And ModusLink Global Solutions, Inc., Nominal Defendant, C.A. No. 10237-VCL , and Steel Partners Holdings L.P. (Steel) Handy &*

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Harman Ltd. The Plaintiff alleges that the individual Defendants breached their fiduciary duties to the Company, unjust enrichment, duty of disclosure, waste of corporate assets and aiding and abetting such breaches. On November 6, 2014, Defendants moved to dismiss the Complaint for (i) failure to make a pre-suit demand upon the Board or sufficiently plead demand futility, and (ii) failure to state a claim upon which relief may be granted. The parties stipulated that all discovery concerning claims asserted in the Complaint shall be stayed pending resolution of the Motion to Dismiss. Although there can be no assurance to the ultimate outcome, the Company believes it has meritorious defense, will deny liability, and intends to defend this litigation vigorously.

On July 18, 2014, Scott R. Crawley (Crawley), a former executive officer of the Company, filed a Complaint against the Company in Massachusetts Superior Court in Middlesex County (the Court) alleging breach of contract and wrongful termination in violation of public policy and is seeking damages pursuant to a breach of his Executive Severance Agreement. The case is currently in the discovery phase. In furtherance of the case, Crawley has demanded that ModusLink indemnify him and advance expenses for all of his costs and expenses incurred as a result of this case and has filed a Preliminary Injunction with the Court to require ModusLink to immediately pay his attorney s fees and expenses. On December 4, 2014, ModusLink opposed Crawley s Motion for Preliminary Injunction and the matter has been taken under advisement by the Court.

(11) OTHER GAINS (LOSSES), NET

The following table reflects the components of Other gains (losses), net :

	Three Months Ended	
	October 31,	
	2014	2013
	(In thousands)	
Foreign currency exchange gain (losses)	\$ 704	\$ (1,172)
Gain on disposal of assets		306
Other, net	2,123	165
	\$ 2,827	\$ (701)

The Company recorded foreign exchange gains of approximately \$0.7 million during the three months ended October 31, 2014. For the three months ended October 31, 2014, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$0.1 million, (\$0.1 million) and \$1.0 million in the Americas, Asia and Europe, respectively. The Company recorded foreign exchange losses of approximately \$1.2 million during the three months ended October 31, 2013. These net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$0.7 million and \$0.5 million in Europe and Asia, respectively.

During the three months ended October 31, 2014, the Company recognized \$2.5 million in net non-cash gains associated with its Trading Securities. In addition to this, during the three months ended October 31, 2014, the Company recognized \$0.3 million in net losses associated with short-term foreign currency contracts.

(12) INCOME TAXES

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the three months ended October 31, 2014, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of October 31, 2014 and July 31, 2014, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$1.1 million and \$1.0 million, respectively.

Uncertain Tax Positions

In accordance with the Company's accounting policy, interest related to unrecognized tax benefits is included in the provision of income taxes line of the Consolidated Statements of Operations. As of October 31, 2014 and July 31, 2014, the liabilities for interest expense related to uncertain tax positions were immaterial. The Company did not accrue for penalties related to income tax positions as there were no income tax positions that required the Company to accrue penalties. The Company does not expect any unrecognized tax benefits to reverse in the next twelve months. The Company is subject to U.S. federal income tax and various state, local and international income taxes in numerous jurisdictions. The federal and state tax returns are generally subject to tax examinations for the tax years ended July 31, 2010 through July 31, 2014. To the extent the Company has tax attribute carryforwards, the tax year in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period. In addition, a number of tax years remain subject to examination by the appropriate government agencies for certain countries in the Europe and Asia regions. In Europe, the Company's 2006 through 2013 tax years remain subject to examination in most locations, while the Company's 2002 through 2013 tax years remain subject to examination in most Asia locations.

Net Operating Loss

The Company has certain deferred tax benefits, including those generated by net operating losses and certain other tax attributes (collectively, the Tax Benefits). The Company's ability to use these Tax Benefits could be substantially limited if it were to experience an ownership change, as defined under Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change would occur if there is a greater than 50-percentage point change in ownership of securities by stockholders owning (or deemed to own under Section 382 of the Code) five percent or more of a corporation's securities over a rolling three-year period.

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Tax Benefit Preservation Plan

On October 17, 2011, the Company's Board of Directors adopted a Tax Benefit Preservation Plan between the Company and American Stock Transfer & Trust Company, LLC, as rights agent (as amended from time to time, the Tax Plan). The Tax Plan reduces the likelihood that changes in the Company's investor base would have the unintended effect of limiting the Company's use of its Tax Benefits. The Tax Plan is intended to require any person acquiring shares of the Company's securities equal to or exceeding 4.99% of the Company's outstanding shares to obtain the approval of the Board of Directors. This would protect the Tax Benefits because changes in ownership by a person owning less than 4.99% of the Company's stock are considered and included in one or more public groups in the calculation of ownership change for purposes of Section 382 of the Code. On October 9, 2014, the Tax Plan was amended by our Board of Directors to extend the expiration of the Tax Plan until October 17, 2017, subject to stockholder approval at the Company's 2015 annual meeting of stockholders. There is no assurance the stockholders will approve the amendment to the Tax Plan.

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The Company calculates earnings per share in accordance with ASC Topic 260, Earnings per Share. The following table reconciles earnings per share for the three months ended October 31, 2014 and 2013:

	Three Months Ended October 31, 2014 2013	
	(In thousands, except per share amounts)	
Income from continuing operations	\$ 222	\$ 538
Income from discontinued operations		79
Net Income	\$ 222	\$ 617
Weighted average common shares outstanding	51,875	51,438
Weighted average common equivalent shares arising from dilutive stock options and restricted stock	129	55
Weighted average number of common and potential common shares	52,004	51,493
Basic net income per common share from:		
Continuing operations	\$ 0.00	\$ 0.01
Discontinued operations	0.00	0.00
	\$ 0.00	\$ 0.01
Diluted net income per common share from:		
Continuing operations	\$ 0.00	\$ 0.01
Discontinued operations	0.00	0.00
	\$ 0.00	\$ 0.01

Basic earnings per common share is calculated using the weighted-average number of common shares outstanding during the period. Diluted earnings per common share, if any, gives effect to diluted stock options (calculated based on the treasury stock method), non-vested restricted stock shares purchased under the employee stock purchase plan and share issuable upon debt conversion (calculated using an as-if converted method).

For the three months ended October 31, 2014 and 2013, approximately 21.1 million and 5.4 million, respectively, common stock equivalent shares were excluded from the denominator in the calculation of diluted earnings per share as their inclusion would have been antidilutive.

Table of Contents**(14) SHARE-BASED PAYMENTS**

The following table summarizes share-based compensation expense related to employee stock options, employee stock purchases and non-vested shares for the three months ended October 31, 2014 and 2013, which was allocated as follows:

	Three Months Ended October 31,	
	2014	2013
	(In thousands)	
Cost of revenue	\$ 94	\$ 116
Selling, general and administrative	315	396
	\$ 409	\$ 512

At October 31, 2014, there was approximately \$1.7 million of total unrecognized compensation cost related to non-vested share-based compensation awards under the Company's plans.

(15) COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) combines net income (loss) and other comprehensive items. Other comprehensive items represent certain amounts that are reported as components of stockholder's equity in the accompanying condensed consolidated balance sheets.

Accumulated other comprehensive items consist of the following:

	Foreign currency items	Pension items	Unrealized gains (losses) on securities	Total
	(In thousands)			
Accumulated other comprehensive income at July 31, 2014	\$ 15,833	\$ (1,900)	\$ 35	\$ 13,968
Foreign currency translation adjustment	(2,639)			(2,639)
Pension liability adjustments		(361)		(361)
Net unrealized holding loss on securities			(7)	(7)
Net current-period other comprehensive income	(2,639)	(361)	(7)	(3,007)
Accumulated other comprehensive income at October 31, 2014	\$ 13,194	\$ (2,261)	\$ 28	\$ 10,961

(16) FOREIGN CURRENCY CONTRACTS

During the quarter ended October 31, 2014, the Company entered into foreign currency forward contracts to manage the foreign currency risk associated with anticipated foreign currency denominated transactions. As of October 31, 2014, the aggregate notional amount of the Company's outstanding foreign currency forward contracts was \$29.7 million as summarized below:

Currency Contracts	October 31, 2014	
	Foreign Currency Amount	Notional Contract Value in USD
	(In thousands)	
Buy CNH	134,619	\$ 21,747
Buy CZK	79,091	3,730
Buy EUR	3,219	4,176
		\$ 29,653

As of October 31, 2014, the fair value of the Company's short-term foreign currency contracts was \$0.3 million and is included in other current liabilities. These contracts are designed to hedge the Company's exposure to transactions denominated in a

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non-functional currency and are not accounted for as hedges under the accounting standards. Accordingly, changes in the fair value of these instruments are recognized in earnings during the period of change as a component of Other gains (losses), net. The contracts were classified within Level 2 of the fair value hierarchy. During the three months ended October 31, 2014, the Company recognized \$0.3 million in net losses associated with these contracts.

(17) DISCONTINUED OPERATIONS AND DIVESTITURES

On January 11, 2013, the Company's wholly-owned subsidiary, Tech for Less LLC (TFL) sold substantially all of its assets to Encore Holdings, LLC (Encore). The consideration paid by Encore for the assets was \$1.6 million, which consisted of a gross purchase price of \$1.9 million less certain adjustments. At the time of sale, the Company received \$1.4 million of the purchase price, with the remaining \$0.2 million held in escrow for the satisfaction of any post-closing claims. During the fourth quarter of fiscal 2013, the Company reached a settlement agreement with Encore whereby the Company received \$0.1 million of the escrow amount, with the remainder reverting to Encore. As a result of the settlement of the escrow amount, the Company's gain on the sale of TFL was reduced by \$0.1 million from \$0.7 million to \$0.6 million. In conjunction with the asset sale agreement, the Company entered into a transition support agreement with Encore to provide certain administrative services for a period of 90 days from the closing date of the transaction. The Company's obligations under the transition support agreement were completed during the third quarter of fiscal year 2013. The Company did not generate significant continuing cash flows from the transition support agreement.

The Company's other discontinued operations relate to a lease obligation associated with a previously vacated facility. During the year ended July 31, 2006, the Company sold a marketing distribution business run by a wholly-owned subsidiary to an unrelated third party. In July 2013, the Company reached an agreement with its landlord for the early termination of a lease agreement associated with that business. As part of the lease termination agreement, the Company paid \$0.4 million to the landlord on August 1, 2013 and was released from any future obligations associated with the leased facility. The Company also assigned its interest in its sublease rental income to the landlord.

(18) SEGMENT INFORMATION

The Company has four operating segments: Americas; Asia; Europe; and e-Business. Based on the information provided to the Company's chief operating decision-maker (CODM) for purposes of making decisions about allocating resources and assessing performance and quantitative thresholds, the Company has determined that it has three reportable segments: Americas, Asia and Europe. In addition to its three reportable segments, the Company reports an All Other category. The All Other category primarily represents the e-Business operating segment. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal and finance, which are not allocated to the Company's reportable segments. The Corporate-level balance sheet information includes cash and cash equivalents, trading securities, investments in affiliates, notes payables and other assets and liabilities which are not identifiable to the operations of the Company's operating segments. All significant intra-segment amounts have been eliminated.

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Summarized financial information of the Company's continuing operations by operating segment is as follows:

	Three Months Ended October 31,	
	2014	2013
Net revenue:		
Americas	\$ 81,798	\$ 76,575
Asia	42,955	45,390
Europe	54,415	60,616
All Other	8,276	8,834
	\$ 187,444	\$ 191,415
Operating income (loss):		
Americas	\$ 1,618	\$ 3,488
Asia	3,353	5,851
Europe	(1,378)	(2,346)
All Other	161	585
Total Segment operating income (loss)	3,754	7,578
Corporate-level activity	(2,607)	(4,957)
Total operating income	1,147	2,621
Total other income (expense)	224	(812)
Income from continuing operations before income taxes	\$ 1,371	\$ 1,809
	October 31,	July 31,
	2014	2014
	(In thousands)	
Total assets:		
Americas	\$ 79,453	\$ 73,254
Asia	88,456	78,749
Europe	79,983	81,327
All Other	27,967	14,221
Sub-total - segment assets	275,859	247,551
Corporate	174,941	204,095
	\$ 450,800	\$ 451,646

Summarized financial information of the Company's net revenue from external customers by group of services is as follows:

	Three Months Ended October 31,	
	2014	2013
Supply chain services	\$ 165,406	\$ 170,150
Aftermarket services	13,762	12,431
e-Business services	8,276	8,834
	\$ 187,444	\$ 191,415

As of October 31, 2014, approximately \$14.5 million, \$4.0 million and \$4.3 million of the Company's long-lived assets were located in the U.S.A., Singapore and Ireland, respectively. As of July 31, 2014, approximately \$19.3 million, \$4.4 million and \$4.7 million of the Company's long-lived assets were located in the U.S.A., Singapore and Ireland, respectively.

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For the three months ended October 31, 2014, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$82.0 million, \$34.8 million, \$25.1 million and \$25.7 million, respectively. For the three months ended October 31, 2013, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$77.4 million, \$32.8 million, \$24.2 million and \$30.6 million, respectively.

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

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

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended that involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words *believes*, *anticipates*, *plans*, *expects* and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed in Part II Item 1A below and elsewhere in this report and the risks discussed in the Company's Annual Report on Form 10-K filed with the SEC on October 14, 2014. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as required by applicable securities laws and regulations.

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Overview

ModusLink Global Solutions executes comprehensive supply chain and logistics services (the *Supply Chain Business*) that are designed to improve clients' revenue, cost, sustainability and customer experience objectives. ModusLink Global Solutions provides services to leading companies in consumer electronics, communications, computing, medical devices, software, and retail. The Company's operations are supported by a global footprint that includes more than 25 sites across North America, Europe, and the Asia Pacific region.

We operate an integrated supply chain system infrastructure that extends from front-end order management through distribution and returns management. This end-to-end solution enables clients to link supply and demand in real time, improve visibility and performance throughout the supply chain, and provide real-time access to information for greater collaboration and making informed business decisions. We believe that our clients can benefit from our global integrated business solution.

Historically, a significant portion of our revenue from our Supply Chain Business has been generated from clients in the computer and software markets. These markets are mature and, as a result, gross margins in these markets tend to be low. To address this, in addition to the computer and software markets, we have expanded our sales focus to include additional markets such as communications and consumer electronics. We believe these markets may experience faster growth than our historical markets, and represent opportunities to realize higher gross margins on our services. Companies in these markets often have significant need for a supply chain partner who will be an extension to their business models. We believe the scope of our service offerings, including e-Business and repair services will increase the overall value of the supply chain solutions we deliver to our existing clients and to new clients. We also strive to reduce our operating costs while implementing operational efficiencies throughout the Company.

Our clients' products are subject to seasonal consumer buying patterns. As a result, the services we provide to our clients are also subject to seasonality, with higher revenue and operating income typically being realized from

handling our clients' products during the first half of our fiscal year, which includes the holiday selling season.

Management evaluates operating performance based on net revenue, operating income (loss) and net income (loss) and a measure that we refer to as adjusted EBITDA, defined as net income (loss) excluding net charges related to interest income, interest expense, income tax expense, depreciation, amortization of intangible assets, SEC inquiry and restatement costs, strategic alternatives and other professional fees, executive severance and employee retention, restructuring, share-based compensation, impairment of goodwill and long-lived assets, other non-operating gains and losses, equity in losses of affiliates and discontinued operations. Among the key factors that will influence our performance are successful execution and implementation of our strategic initiatives, global economic conditions, especially in the technology sector, which comprises a predominant proportion of our business, demand for our clients' products, the effect of product form factor changes, technology changes, revenue mix and demand for outsourcing services.

As a large portion of our revenue comes from outsourcing services provided to clients such as computer hardware manufacturers and consumer electronics companies, our operating performance has been and may continue to be adversely affected by declines in the overall performance of the technology sector and uncertainty affecting the world economy. In addition, the drop in consumer demand for products of certain clients has had and may continue to have the effect of reducing our volumes and adversely affecting our revenue performance. The markets for our services are generally very competitive. We also face pressure from our clients to continually realize efficiency gains in order to help our clients maintain their profitability objectives. Increased competition and client demands for efficiency improvements may result in price reductions, reduced gross margins and, in some cases, loss of market share. In addition, our profitability varies based on the types of services we provide and the regions in which we perform them. Therefore, the mix of revenue derived from our various services and locations can impact our gross margin results. Also, form factor changes, which we describe as the reduction in the amount of materials and product components used in our clients' completed packaged

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product, can also have the effect of reducing our revenue and gross margin opportunities. As a result of these competitive and client pressures the gross margins in our business are low. For the three months ended October 31, 2014 and 2013, our gross margin percentage was 10.0% and 11.5% respectively. Increased competition as well as industry consolidation and/or low demand for our clients' products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We generally manage margin and pricing pressures in several ways, including efforts to target new markets, expand our service offerings, improve the efficiency of our processes and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, consolidating facilities, and other actions designed to improve the productivity of our operations.

Historically, a limited number of key clients have accounted for a significant percentage of our revenue. For the three months ended October 31, 2014, sales to Hewlett-Packard accounted for approximately 29% of our net revenue while our top ten clients collectively accounted for approximately 82% of our net revenue. We expect to continue to derive the vast majority of our revenue from sales to a small number of key clients. In general, we do not have any agreements which obligate any client to buy a minimum amount of services from us or designate us as an exclusive service provider. Consequently, our net revenue is subject to demand variability by our clients. The level and timing of orders placed by our clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions.

For the three months ended October 31, 2014, the Company reported net revenue of \$187.4 million, operating income of \$1.2 million, income from continuing operations before income taxes of \$1.4 million and net income of \$0.2 million. For the three months ended October 31, 2013, the Company reported net revenue of \$191.4 million, operating income of \$2.6 million, income from continuing operations before income taxes of \$1.8 million and net income of \$0.6 million. At October 31, 2014, we had cash and cash equivalents of \$104.3 million, and working capital of \$208.9 million.

Basis of Presentation

The Company has four operating segments: Americas; Asia; Europe and e-Business. The Company has three reportable segments: Americas; Asia; and Europe. In addition to its three reportable segments, the Company reports an All Other category. The All Other category represents primarily the e-Business operating segment. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal and finance which are not allocated to the Company's reportable segments and administration costs related to the Company's venture capital activities. The Corporate-level balance sheet information includes cash and cash equivalents, trading securities, investments in affiliates, notes payables and other assets and liabilities which are not identifiable to the operations of the Company's operating segments.

All significant intercompany transactions and balances have been eliminated in consolidation.

Results of Operations

Three months ended October 31, 2014 compared to the three months ended October 31, 2013

Net Revenue:

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The decline in revenue from new programs was primarily due to a large consumer products program that has been generating revenue for more than 12 months and is now being categorized as base business, defined as client programs that have been executed for 12 months or more.

During the second quarter of fiscal year 2014, a major client in the computing market notified us of an intended change in their sourcing strategy effective during our third fiscal quarter for one of their supply chain programs in Asia for which we were the primary service provider. We believe that the client added an additional service provider to this program, but we expect to continue to be the primary service provider. This change in sourcing strategy resulted in reduced annualized net revenue in fiscal year 2014 of approximately \$10 million, and had a greater proportionate impact on operating income consistent with the historical margins realized from this type of service program. Although there can be no assurances, we are and will continue to seek to offset this loss of net revenue and associated operating income through increased revenues from other clients, new business opportunities, increases in productivity and ongoing cost reduction initiatives.

During the fourth quarter of fiscal year 2014, the Company was informed by a major client in the computing market that due to a change in a client's supply chain strategy, a number of programs currently sourced with the Company primarily in the Americas would conclude by the first quarter of fiscal year 2015. The Company worked with this client to establish a comprehensive plan to transition the programs, which yielded additional working capital in the range of \$20 million to \$25 million. Combined, these programs accounted for approximately \$150 million to \$160 million of annual net revenue and approximately \$2.5 million to \$3.5 million of operating income due to the historically low margins we have realized from these programs. We are seeking and will continue to seek to offset the loss of net revenue and the associated operating income through increased revenues from new client program wins along with increased business with existing clients, ongoing productivity increases and cost reduction initiatives.

During the three months ended October 31, 2014, net revenue in the Americas region increased by approximately \$5.2 million. This increase resulted primarily from higher revenues from a program for a consumer electronics client, offset by decline in revenue from an aftermarket services program related to the repair and refurbishment of mobile devices. Within the Asia region, the net revenue decrease of approximately \$2.4 million primarily resulted from lower revenue from certain clients related to the personal computer market, offset by higher revenues from a program for a consumer electronics client. Within the Europe region, net revenue decreased by approximately \$6.2 million primarily due to lower revenues from certain clients related to the consumer electronics and personal computer markets, offset by higher revenues from a program for a consumer electronics client. Net revenue for All Other decreased by approximately \$0.6 million primarily due to lower revenue from consumer electronics clients.

Cost of Revenue:

	2014	As a % of Segment Net Revenue	2013	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 76,033	93.0%	\$ 69,696	91.0%	\$ 6,337	9.1%
Asia	34,292	79.8%	34,435	75.9%	(143)	(0.4%)
Europe	50,968	93.7%	57,840	95.4%	(6,872)	(11.9%)

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All Other	7,313	88.4%	7,449	84.3%	(136)	(1.8%)
Total	\$ 168,606	90.0%	\$ 169,420	88.5%	\$ (814)	(0.5%)

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services as well as costs for salaries and benefits, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the three months ended October 31, 2014 included materials procured on behalf of our clients of \$115.0 million, as compared to \$113.6 million for the same period in the prior year, an increase of \$1.4 million. Total cost of revenue decreased by \$0.8 million for the three months ended October 31, 2014, as compared to the three months ended October 31, 2013, due to a mix of client programs with lower relative material costs. Gross margin percentage for the first quarter of fiscal 2015 decreased to 10.0% from 11.5% in the prior year quarter, primarily as a result of an unfavorable revenue mix, primarily associated with lower volumes for a client in the computing industry. For the three months ended October 31, 2014, the Company's gross margin percentages within the Americas, Asia and Europe regions were 7.0%, 20.2% and 6.3%, as compared to 9.0%, 24.1% and 4.6%, respectively, for the same period of the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on gross margin for the quarter ended October 31, 2014.

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In the Americas, the 2.0 percentage point decrease in gross margin, from 9.0% to 7.0%, resulted from an increase in labor costs as well as an unfavorable shift in revenue mix. In Asia, the 3.9 percentage point decrease in gross margin, from 24.1% to 20.2%, was primarily the result of decline in volume from a computing industry client, with a lower decline in labor costs. In Europe, the 1.7 percentage point improvement in gross margin, from 4.6% to 6.3%, was attributable to lower labor costs at certain facilities, offset by an unfavorable revenue mix. The gross margin for All Other, which is comprised primarily of e-Business, was 11.6% for the three months ended October 31, 2014 as compared to 15.7% for the same period of the prior year. This decrease of 4.1 percentage points was due to loss of volume associated with a high margin consumer electronics client.

Selling, General and Administrative Expenses:

	2014	As a % of Segment Net Revenue	2013	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 3,707	4.5%	\$ 3,186	4.2%	\$ 521	16.4%
Asia	4,805	11.2%	4,982	11.0%	(177)	(3.6%)
Europe	3,843	7.1%	4,435	7.3%	(592)	(13.3%)
All Other	560	6.8%	555	6.3%	5	0.9%
Sub-total	12,915	6.9%	13,158	6.9%	(243)	(1.8%)
Corporate-level activity	2,607		4,957		(2,350)	(47.4%)
Total	\$ 15,522	8.3%	\$ 18,115	9.5%	\$ (2,593)	(14.3%)

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense and marketing expenses. Selling, general and administrative expenses during the three months ended October 31, 2014 decreased by approximately \$2.6 million compared to the three-month period ended October 31, 2013, primarily as a result of the Company's ongoing restructuring efforts (\$1.0 million) and lower professional fees related to the financial restatement (\$2.0 million), including audit fees and various costs related to the financial restatement, offset by increased other administrative costs during the current quarter. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the quarter ended October 31, 2014.

Amortization of Intangible Assets:

2014	As a % of Segment	2013	As a % of Segment	\$ Change	% Change
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	Net Revenue		Net Revenue (In thousands)			
Americas	\$ 26	0.0%	\$ 38	0.0%	\$ (12)	(31.6%)
All Other	242	2.9%	242	2.7%		0.0%
Total	\$ 268	0.1%	\$ 280	0.1%	\$ (12)	(4.3%)

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisition of ModusLink OCS and ModusLink PTS. The remaining intangible assets are being amortized over lives ranging from 4 to 7 years.

Impairment of Long-lived Assets:

During the three month period ended October 31, 2014 and 2013 no impairment charges were recorded by the Company to adjust the carrying value of its assets.

Table of Contents***Restructuring, net:***

	2014	As a % of Segment Net Revenue	2013	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 414	0.5%	\$ 167	0.2%	\$ 247	147.9%
Asia	505	1.2%	122	0.3%	383	313.9%
Europe	982	1.8%	687	1.1%	295	42.9%
All Other		0.0%	3	0.0%	(3)	(100.0%)
Total	\$ 1,901	1.0%	\$ 979	0.5%	\$ 922	94.2%

The \$1.9 million restructuring charge recorded during the three months ended October 31, 2014 primarily consisted of approximately \$0.4 million, \$0.5 million and \$1.0 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 93 employees in our global supply chain operations. The estimated savings on an annualized basis expected to result from these actions is approximately \$6.2 million.

The \$1.0 million restructuring charge recorded during the three months ended October 31, 2013 primarily consisted of approximately \$0.2 million, \$0.1 million, and \$0.7 million of employee-related costs in the Americas, Asia, and Europe, respectively, related to the workforce reduction of 49 employees in our global supply chain operations.

Interest Income/Expense:

During the three months ended October 31, 2014 and 2013, interest income was \$0.1 million for both periods.

During the three months ended October 31, 2014 and 2013, interest expense totaled approximately \$2.7 million and \$0.2 million, respectively. In the current quarter, the interest expense primarily relates to the Company's issuance of \$100 million of 5.25% Convertible Senior Notes during the third quarter of fiscal 2014. In the prior year, interest expense related primarily to the Company's stadium obligation.

Other Gains (Losses), net:

During the three months ended October 31, 2014, the Company recognized \$2.5 million in net non-cash gains associated with its Trading Securities. In addition to this, during the three months ended October 31, 2014, the Company recognized \$0.3 million in net losses associated with short-term foreign currency contracts.

The Company recorded foreign exchange gains (losses) of approximately \$0.7 million and \$(1.2) million during the three months ended October 31, 2014 and 2013, respectively. For the three months ended October 31, 2014, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$0.1 million, (\$0.1 million) and \$1.0 million in the Americas, Asia and Europe, respectively. For the three months ended October 31, 2013, the net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$0.7 million and \$0.5 million in

Europe and Asia, respectively.

Impairment of Investments in Affiliates:

During the three months ended October 31, 2014 and 2013, no impairment charges were recorded in the Company's investments in the @Ventures portfolio of companies. The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular investment's net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee's cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes and competition. The valuation process is based primarily on information that the Company requests from these privately held companies which are not subject to the same disclosure and audit requirements as those of U.S. public companies. As such, the reliability and the accuracy of the data may vary.

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Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to volatility in our reported results of operations in the past and may negatively impact our results of operations in the future. We may incur impairment charges to our investments in privately held companies, which could have an adverse impact on our future results of operations. A decline in the carrying value of our \$7.2 million of investments in affiliates at October 31, 2014 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by \$0.7 million to \$1.4 million.

Income Tax Expense:

During the three months ended October 31, 2014, the Company recorded income tax expense of approximately \$1.2 million, as compared to income tax expense of \$1.1 million for the same period in the prior fiscal year. For the three months ended October 31, 2014 and 2013, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions.

The Company provides for income tax expense related to federal, state, and foreign income taxes. The Company continues to maintain a full valuation allowance against its deferred tax assets in the U.S. and certain of its foreign subsidiaries due to the uncertainty of realizing such benefits.

Equity in Losses of Affiliates:

Equity in losses of affiliates results from the Company's minority ownership in certain investments through its @Ventures portfolio that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's operating income or losses is included in equity in losses of affiliates.

During the three months ended October 31, 2014 there were no material equity gains or losses in affiliates recorded as all investments were being accounted for under the cost method. Equity in losses of affiliates was \$0.1 million for the three months ended October 31, 2013. No material distributions were received during the three months ended October 31, 2014 and 2013.

Liquidity and Capital Resources

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of our securities and borrowings from lending institutions. As of October 31, 2014, the Company's primary sources of liquidity consisted of cash and cash equivalents of \$104.3 million. As of October 31, 2014, the Company had approximately \$24.7 million of cash and cash equivalents held outside of the U.S. Of this amount, approximately \$13.0 million is considered permanently invested due to certain restrictions under local laws, and \$11.7 million is not subject to permanent reinvestment. Due to the Company's U.S. net operating loss carryforward there is no U.S. tax payable upon repatriating the undistributed earnings of foreign subsidiaries considered not subject to permanent investment. Foreign withholding taxes would range from 0% to 10% on any repatriated funds.

On June 30, 2014, two direct and wholly owned subsidiaries of the Company (the Borrowers) entered into a revolving credit and security agreement (the Credit Agreement), as borrowers and guarantors, with PNC Bank and National Association, as lender and as agent, respectively. The Credit Agreement has a five (5) year term which expires on June 30, 2019. It includes a maximum credit commitment of \$50.0 million, is available for letters of credit (with a sublimit of \$5.0 million) and has a \$20.0 million uncommitted accordion feature. The actual maximum credit available under the Credit Agreement varies from time to time and is determined by calculating the applicable borrowing base, which is based upon applicable percentages of the values of eligible accounts receivable and eligible inventory minus

reserves determined by the Agent (including other reserves that the Agent may establish from time to time in its permitted discretion), all as specified in the Credit Agreement. As of October 31, 2014 and July 31, 2014, the Company had \$21.3 million and \$4.5 million outstanding on the PNC Bank credit facility, respectively.

Consolidated working capital was \$208.9 million at October 31, 2014, compared with \$207.2 million at July 31, 2014. Included in working capital were cash and cash equivalents of \$104.3 million at October 31, 2014 and \$183.5 million at July 31, 2014.

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Net cash used in operating activities of continuing operations was \$23.6 million for the three months ended October 31, 2014, as compared to \$9.5 million in the prior year period. The \$14.1 million increase in net cash used in operating activities of continuing operations as compared with the same period in the prior year was due to increased working capital requirements as a result of seasonal increases in receivables in the current period offset by the decrease in inventory due to the exit of a program by a client in the computing market. During the three months ended October 31, 2014, non-cash items within net cash provided by operating activities included depreciation expense of \$2.8 million, share-based compensation of \$0.4 million, amortization of intangible assets of \$0.3 million, amortization of deferred financing costs of \$0.1 million, accretion of debt discount of \$1.0 million and non-operating gains, net, of \$2.8 million. During the three months ended October 31, 2013, non-cash items within net cash provided by operating activities included depreciation expense of \$3.5 million, share-based compensation of \$0.5 million, amortization of intangible assets of \$0.3 million, non-operating losses, net, of \$0.7 million and equity in losses of affiliates and impairments of \$0.1 million.

The Company believes that its cash flows related to operating activities of continuing operations are dependent on several factors, including profitability, accounts receivable collections, effective inventory management practices, and optimization of the credit terms of certain vendors of the Company. Our cash flows from operations are also dependent on several factors including the overall performance of the technology sector and the market for outsourcing services, as discussed above in the *Overview* section.

Investing activities of continuing operations used cash of \$71.1 million and \$1.0 million during the three months ended October 31, 2014 and 2013, respectively. The \$71.1 million of cash used in investing activities during the three months ended October 31, 2014 was comprised of \$69.2 million in purchase of trading securities and \$1.9 million in capital expenditures. The \$1.0 million of cash used in investing activities during the three months ended October 31, 2013 represents primarily capital expenditures.

Financing activities of continuing operations provided cash of \$16.8 million during the three months ended October 31, 2014 and used cash of \$0.2 million during the three months ended October 31, 2013. Cash flows from financing activities of continuing operations during the three months ended October 31, 2014 primarily related to proceeds and payments associated with the Company's line of credit.

The Company believes it has access to adequate resources to meet its needs for normal operating costs, capital expenditures, mandatory debt redemptions and working capital for its existing business for at least the next twelve months. These resources include cash and cash equivalents including cash proceeds from the issuance of convertible notes discussed above and cash provided by operating activities. The Company's ability to fund planned capital expenditures and to make acquisitions will depend upon its future operating performance, which will be affected by prevailing economic conditions in the markets in which it operates, as well as financial, business and other factors, some of which are beyond its control.

Management is utilizing the following strategies to continue to enhance liquidity: (1) continuing to implement improvements throughout all of the Company's operations to increase sales and operating efficiencies, (2) supporting profitable revenue growth both internally and potentially through acquisitions and (3) evaluating from time to time and as appropriate, strategic alternatives with respect to its businesses and/or assets and capital raising opportunities. The Company continues to examine all of its options and strategies, including acquisitions, divestitures and other corporate transactions, to increase cash flow and stockholder value.

Off-Balance Sheet Arrangements

The Company does not have any significant off-balance sheet arrangements.

Contractual Obligations

A summary of the Company's contractual obligations is included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2014. The Company's contractual obligations and other commercial commitments did not change materially between July 31, 2014 and October 31, 2014. The Company's gross liability for unrecognized tax benefits and related accrued interest was approximately \$1.2 million as of October 31, 2014. The Company is unable to reasonably estimate the amount or timing of payments for the liability.

From time to time, the Company agrees to indemnify its clients in the ordinary course of business. Typically, the Company agrees to indemnify its clients for losses caused by the Company. As of October 31, 2014, the Company had no recorded liabilities with respect to these arrangements.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of

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these financial statements 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, inventory, restructuring, share-based compensation expense, goodwill and long-lived assets, investments, and income taxes. Of the accounting estimates we routinely make relating to our critical accounting policies, those estimates made in the process of: determining the valuation of inventory and related reserves; determining future lease assumptions related to restructured facility lease obligations; measuring share-based compensation expense; determining projected and discounted cash flows for purposes of evaluating goodwill and intangible assets for impairment; preparing investment valuations; and establishing income tax valuation allowances and liabilities are the estimates most likely to have a material impact on our financial position and results of operations. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. However, because these estimates inherently involve judgments and uncertainties, there can be no assurance that actual results will not differ materially from those estimates.

During the three months ended October 31, 2014, we believe that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in the *Critical Accounting Policies* section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to the impact of interest rate changes, foreign currency exchange rate fluctuations and changes in the market values of its investments. The carrying values of financial instruments including cash and cash equivalents, trading securities, accounts receivable, accounts payable and the revolving line of credit, approximate fair value because of the short-term nature of these instruments. The carrying value of capital lease obligations approximates fair value, as estimated by using discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Interest Rate Risk

Effective as of April 16, 2014, the Company voluntarily terminated its Wells Fargo Credit Facility. The Company did not have any outstanding indebtedness related to the Credit Facility as of October 31, 2014. As of October 31, 2014 and July 31, 2014, the Company had \$21.3 million and \$4.5 million outstanding on the PNC Bank credit facility, respectively, which is included in other current liabilities on the consolidated balance sheet.

We maintain a portfolio of highly liquid cash equivalents typically maturing in three months or less as of the date of purchase. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy and include corporate and state municipal obligations such as commercial paper, certificates of deposit and institutional money market funds.

Our exposure to market risk for changes in interest rates relates primarily to our investment in short-term investments. Our short-term investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations and delivers an appropriate yield in relationship to our investment guidelines and market conditions.

Investment Risk

We are exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. As of October 31, 2014 the Company had \$72.1 million in investments in trading securities. Had the market price of such securities been 10% lower at October 31, 2014, the aggregate value of such securities would have been \$7.2 million lower.

Table of Contents***Foreign Currency Risk***

The Company has operations in various countries and currencies throughout the world and its operating results and financial position are subject to exposure from fluctuations in foreign currency exchange rates. From time to time, the Company has used derivative financial instruments on a limited basis, principally foreign currency exchange rate contracts, to minimize the transaction exposure that results from such fluctuations.

During the quarter ended October 31, 2014, the Company entered into foreign currency forward contracts to manage the foreign currency risk associated with anticipated foreign currency denominated transactions. As of October 31, 2014, the aggregate notional amount of the Company's outstanding foreign currency forward contracts was \$29.7 million. As of October 31, 2014, the fair value of the Company's short-term foreign currency contracts was \$0.3 million and is included in other current liabilities. These contracts are designed to hedge the Company's exposure to transactions denominated in a non-functional currency and are not accounted for as hedges under the accounting standards. Accordingly, changes in the fair value of these instruments are recognized in earnings during the period of change as a component of Other gains (losses), net. The contracts were classified within Level 2 of the fair value hierarchy. During the three months ended October 31, 2014, the Company recognized \$0.3 million in net losses associated with these contracts.

Revenues from our foreign operating segments accounted for approximately 51.9% and 55.4% of total revenues during the three months ended October 31, 2014 and 2013, respectively. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.

The primary foreign currencies in which the Company operates include Chinese Renminbi, Euros, Czech Koruna and Singapore Dollars. The income statements of our international operations that are denominated in foreign currencies are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency-denominated transactions results in increased revenues and operating expenses for our international operations. Similarly, our revenues and operating expenses will decrease for our international operations when the U.S. dollar strengthens against foreign currencies. While we attempt to balance local currency revenue to local currency expenses to provide in effect a natural hedge, it is not always possible to completely reduce the foreign currency exchange rate risk due to competitive and other reasons.

The conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income (loss). For the three months ended October 31, 2014 and 2013, we recorded a foreign currency translation gain (loss) of approximately \$(2.6) million and \$2.1 million, respectively, which is recorded within accumulated other comprehensive income in stockholders' equity in our condensed consolidated balance sheet. In addition, certain of our subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the relative exchange rates between the currencies result in remeasurement gains or losses at each balance sheet date and transaction gains or losses upon settlement. For the three months ended October 31, 2014, we recorded net realized and unrealized foreign currency transaction and remeasurement gains of approximately \$0.7 million which are recorded in Other gains (losses), net in our condensed consolidated statements of operations.

Our international business is subject to risks, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign currency exchange rate volatility when compared to the United States. Accordingly, our future results could be materially adversely impacted by changes in these or other factors. As exchange rates vary, our international financial results may vary from

expectations and adversely impact our overall operating results.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended October 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On February 15, 2012, the staff of the Division of Enforcement of the SEC initiated with the Company an informal inquiry, and later a formal action, regarding the Company's treatment of rebates associated with volume discounts provided by vendors. To date, the SEC has not asserted any formal claims.

On June 11, 2012, we announced the pending restatement of the Company's financial statements for the periods ending on or before April 30, 2012 (the June 11, 2012 Announcement), related to the Company's accounting treatment of rebates associated with volume discounts provided by vendors. The restated financial statements were filed on January 11, 2013. After the June 11, 2012 Announcement, stockholders of the Company commenced three purported class actions in the United States District Court for the District of Massachusetts arising from the circumstances described in the June 11, 2012 Announcement (the Securities Actions), entitled, respectively:

Irene Collier, Individually And On Behalf Of All Others Similarly Situated, vs. ModusLink Global Solutions, Inc., Joseph C. Lawler and Steven G. Crane, Case 1:12-CV-11044-DJC, filed June 12, 2012 (the Collier Action);

Alexander Shnerer Individually And On Behalf Of All Others Similarly Situated, vs. ModusLink Global Solutions, Inc., Joseph C. Lawler and Steven G. Crane, Case 1:12-CV-11078-DJC, filed June 18, 2012 (the Shnerer Action); and

Harold Heszkel, Individually and on Behalf of All Others Similarly Situated v. ModusLink Global Solutions, Inc., Joseph C. Lawler, and Steven G. Crane, Case 1:12-CV-11279-DJC, filed July 11, 2012 (the Heszkel Action).

Each of the Securities Actions purports to be brought on behalf of those persons who purchased shares of the Company between September 26, 2007 through and including June 8, 2012 (the Class Period) and alleges that failure to timely disclose the issues raised in the June 11, 2012 Announcement during the Class Period rendered defendants public statements concerning the Company's financial condition materially false and misleading in violation of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder. On February 11, 2013, plaintiffs filed a consolidated amended complaint in the Securities Actions. The Company moved to dismiss the amended complaint on March 11, 2013. On March 26, 2014, following a November 8, 2013 hearing, the Court denied the Company's motion to dismiss, and, on May 26, 2014, the Company answered the Amended Complaint. In October 2014, the parties agreed to a stipulation for a proposed \$4 million class settlement to be covered by insurance proceeds, subject to Court approval. On November 24, 2014, the Court entered an order preliminarily approving the proposed settlement, certification of the settlement class, and provision of notice of the settlement to the settling class.

A final settlement approval hearing before the court is now scheduled for March 11, 2015. Although there can be no assurance to the ultimate outcome, the Company believes it has meritorious defense, will deny liability, and intends to defend this litigation vigorously.

On October 15, 2014, a Company shareholder commenced a purported derivative action in the Court of Chancery of the State of Delaware against the Company, entitled *Mohammad Ladjevardian v. Anthony Bergamo, Jeffrey J. Fenton, Glen M. Kassan, Warren G. Lichtenstein, Jeffrey S. Wald, and Philip E. Lengyel, Steel Partners Holdings L.P., Handy & Harman Ltd.; Defendants, And ModusLink Global Solutions, Inc., Nominal Defendant, C.A. No. 10237-VCL, and Steel Partners Holdings L.P. (Steel) Handy & Harman Ltd.* The Plaintiff alleges that the individual Defendants breached their fiduciary duties to the Company, unjust enrichment, duty of disclosure, waste of corporate assets and aiding and abetting such breaches. On November 6, 2014, Defendants moved to dismiss the Complaint for (i) failure to make a pre-suit demand upon the Board or sufficiently plead demand futility, and (ii) failure to state a claim upon which relief may be granted. The parties stipulated that all discovery concerning claims asserted in the Complaint shall be stayed pending resolution of the Motion to Dismiss. Although there can be no assurance to the ultimate outcome, the Company believes it has meritorious defense, will deny liability, and intends to defend this litigation vigorously.

On July 18, 2014, Scott R. Crawley (Crawley), a former executive officer of the Company, filed a Complaint against the Company in Massachusetts Superior Court in Middlesex County (the Court) alleging breach of contract and wrongful termination in violation of public policy and is seeking damages pursuant to a breach of his Executive Severance Agreement. The case is currently in the discovery phase. In furtherance of the case, Crawley has demanded that ModusLink indemnify him and advance expenses for all of his costs and expenses incurred as a result of this case and has filed a Preliminary Injunction with the Court to require ModusLink to immediately pay his attorney s fees and expenses. On December 4, 2014, ModusLink opposed Crawley s Motion for Preliminary Injunction and the matter has been taken under advisement by the Court.

Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. Forward-looking statements in this document and those we make from time to time through our senior management are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements concerning the expected future revenue or earnings or concerning projected plans, performance, or development of products and services, as well as other estimates related to future operations are necessarily only estimates of future results. We cannot assure you that actual results will not materially differ from expectations. Forward-looking statements represent our current expectations and are inherently uncertain. We do not undertake any obligation to update forward-looking statements, except as required by applicable securities laws and regulations. Factors that could cause actual results to differ materially from results anticipated in forward-looking statements include, but are not limited to, the following:

RISKS RELATED TO MODUSLINK S SUPPLY CHAIN BUSINESS

We derive a substantial portion of our revenue from a small number of clients and adverse industry trends or the loss of any of those clients could significantly damage our business.

We derive a substantial portion of our revenue by providing supply chain management services to a small number of clients. Our business and future growth will continue to depend in large part on the industry trend towards outsourcing supply chain management and other business processes. If this trend does not continue or declines, demand for our supply chain management services will decline and our financial results could suffer.

In addition, the loss of a significant amount of business or program with any key client could cause our revenue to decline. For the three months ended October 31, 2014, sales to one client, Hewlett-Packard, accounted for approximately 29% of our consolidated net revenue. For the three months ended October 31, 2014, our top ten clients accounted for approximately 82% of our consolidated net revenue. We expect to continue to derive the vast majority of our operating revenue from sales to a small number of key clients. In general, we do not have any agreements which obligate any client to buy a minimum amount of services from us, or to designate us as its sole supplier of any particular services. The loss of business with any key clients, or a decision by any one of our key clients to significantly change or reduce the services we provide, could have a material adverse effect on our business. We cannot assure you that our revenue from key clients will not decline in future periods.

In addition, ModusLink has been designated as an authorized replicator for Microsoft. This designation provides a license to replicate Microsoft software products and documentation for clients who want to bundle licensed software with their hardware products. This designation is annually renewable at Microsoft's discretion. A failure to maintain authorized replicator status could have a material adverse effect on our business and our revenue.

We may have difficulty achieving and sustaining operating profitability, and if we deplete our working capital balances, our business will be materially and adversely affected.

For the three month periods ended October 31, 2014 and 2013, we reported operating income of \$1.2 million and \$2.6 million, respectively. We anticipate that we will continue to incur significant fixed operating expenses in the future, including both cost of revenue and selling, general and administrative expenses. Therefore, since our revenue is subject to fluctuations, we cannot assure you that we will achieve or sustain operating income in the future. We may also use significant amounts of cash in an effort to increase the efficiency and profitability of our business. At October 31, 2014, we had consolidated cash and cash equivalents of approximately \$104.3 million and current liabilities of approximately \$198.9 million. If we are unable to achieve or sustain operating profitability, we risk depleting our working capital balances and our business will be materially adversely affected.

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Because our contracts do not contain minimum purchase requirements and we sell primarily on a purchase order basis, we are subject to uncertainties and variability in demand by clients, which could decrease revenue and materially adversely affect our financial results.

Our contracts do not contain minimum purchase requirements and we sell primarily on a purchase order basis. Therefore, our sales are subject to demand variability by our clients, which is difficult to predict, has fluctuated historically and may continue to fluctuate, sometimes materially from year to year and even from quarter to quarter. The level and timing of orders placed by these clients vary for a variety of reasons, including seasonal buying by end-users, individual client strategies, the introduction of new technologies, the desire of our clients to reduce their exposure to any single supplier and general economic conditions. For example, during the second quarter of fiscal year 2014, a major client notified us of its intention to add an additional service provider for a certain supply chain management program for which we are currently the primary service provider. If we are unable to replace this business with new purchase orders, this transition could have a material adverse effect on our revenue and profitability. If we are unable to anticipate and respond to the demands of our clients, we may lose clients because we have an inadequate supply of their products or insufficient capacity in our sites, or in the alternative, we may have excess inventory or excess capacity, either of which may have a material adverse effect on our business, financial position and operating results.

Disruption in the economy and financial markets could have a negative effect on our business.

The economy and financial markets in the United States, Europe and Asia have experienced extreme disruption during the last five years, including, among other things, extreme volatility in securities prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. Governments have taken unprecedented actions intended to address extreme market conditions that include severely restricted credit and declines in real estate values. The businesses of our clients, and in turn our business, is highly dependent on consumer demand, which has been affected by the economic downturn and is highly uncertain. There can be no assurance that there will not be a further deterioration in financial markets and confidence in major economies, which could then lead to further challenges in the operation of our business. These economic developments affect businesses such as ours in a number of ways. The tightening of credit in financial markets adversely affects the ability of clients and suppliers to obtain financing for significant purchases and operations and could result in a decrease in orders and spending for our products and services. We are unable to predict the likelihood, duration and severity of disruptions in financial markets and adverse economic conditions and the effects they will have on our business and financial condition.

A decline in the technology sector or a reduction in consumer demand could have a material adverse effect on our business.

A large portion of our revenue comes from clients in the technology sector, which is intensely competitive, very volatile and subject to rapid changes. Declines in the overall performance of the technology sector have in the past and could in the future adversely affect the demand for supply chain management services and reduce our revenue and profitability from these clients. In addition, industry changes, such as the transition of more collateral materials from physical form to digital form, and the convergence of functionality of smartphones, could lessen the demand for certain of our services or devices we currently handle. To the extent recent uncertainty in the economy or other factors result in decreased consumer demand for our clients' products, we may experience a reduction in volumes of client products that we handle, which could have a material adverse effect on our business, financial position and operating results.

Our quarterly results may fluctuate significantly.

Our operating results have fluctuated widely on a quarterly basis during the last several years. We expect that we may experience significant fluctuations in future quarterly operating results. Many factors, some of which are beyond our control, have contributed to these quarterly fluctuations in the past and may continue to contribute to fluctuations. Therefore, operating results for future periods are difficult to predict, and prior results are not necessarily indicative of results to be expected in future periods. These factors include:

how well we execute on our strategy and operating plans;

implementation of our strategic initiatives and achievement of expected results of these initiatives;

demand for our services;

consumer confidence and demand;

specific economic conditions in the industries in which we compete;

general economic and financial market conditions;

timing of new product introductions or software releases by our clients or their competitors;

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payment of costs associated with our acquisitions, sales of assets and investments;

timing of sales of assets and marketable securities;

market acceptance of new products and services;

seasonality;

temporary shortages in supply from vendors;

charges for impairment of long-lived assets, including goodwill and/or restructuring in future periods;

political instability or natural disasters in the countries in which we operate;

actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates reflected in our accompanying consolidated financial statements; and

changes in accounting rules.

We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful or indicative of our future performance. In some fiscal quarters our operating results may be below the expectations of securities analysts and investors, which may cause the price of our common stock to decline.

We must maintain adequate levels of inventory in order to meet client needs, which present risks to our financial position and operating results.

We must purchase and maintain adequate levels of inventory in order to meet client needs rapidly and on a timely basis. The markets, including the technology sector served by many of our clients, are subject to rapid technological change, new and enhanced product specification requirements, and evolving industry standards. These changes may cause inventory on hand to decline substantially in value or to rapidly become obsolete. The majority of our clients offer protection from the loss in value of inventory. However, our clients may become unable or unwilling to fulfill their protection obligations. The inability of our clients to fulfill their protection obligations could lower our gross margins and cause us to record inventory write-downs. If we are unable to manage the inventory on hand with our clients with a high degree of precision, we may have insufficient product supplies or we may have excess inventory, resulting in inventory write-downs, which may harm our business, financial position and operating results.

Our ability to obtain particular products or components in the quantities required to fulfill client orders on a timely basis is critical to our success. We have no guaranteed price or delivery agreements with our suppliers. We may occasionally experience a supply shortage of some products as a result of strong demand or problems experienced by our suppliers. If shortages or delays persist, the price of those products may increase, or the products may not be available at all. Accordingly, an inability to secure and maintain an adequate supply of products or components to

fulfill our client orders on a timely basis, or a failure to meet clients' expectations could result in lost revenue, lower client satisfaction, negative perceptions in the marketplace, potential claims for damages and have a material adverse effect on our business.

If we are not able to establish client sites where requested, or if we fail to retain key clients at established sites, our client relationships, revenue and expenses could be seriously harmed.

Our clients have, at times, requested that we add capacity or open a facility in locations near their sites. If we do not elect to add required capacity at sites near existing clients or establish sites near existing or potential clients, clients may decide to seek other service providers. In addition, if we lose a significant client of a particular site or open or expand a site with the expectation of business that does not materialize, operations at that site could become unprofitable or significantly less efficient and we may need to incur restructuring costs. Any of these events could have a material adverse effect on our business, financial position and operating results.

We may encounter problems in our efforts to increase operational efficiencies.

We continue to identify ways to increase efficiencies and productivity and effect cost savings. We have undertaken projects designed to increase our operational efficiencies, including the standardization to a global solutions platform through an integrated ERP system and the opening of new solution centers in low cost areas to expand client offerings and to effect cost savings. We have also implemented a shared services model utilizing centralized hub locations to service multiple spoke locations across the Americas, Asia and Europe regions. We may encounter problems with these projects that will divert the attention of management and/or result in additional costs and unforeseen project delays. If we or these projects do not achieve expected results, our business, financial position and operating results may be materially and adversely affected.

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We are subject to risks of operating internationally.

We maintain significant operations outside of the United States, and we may expand these operations. Our success depends, in part, on our ability to manage these international operations. These international operations require significant management attention, financial resources and are subject to numerous and varied regulations worldwide, some of which may have an adverse effect on our ability to develop our international operations in accordance with our business plans or on a timely basis.

We currently conduct business in many countries including China, Czech Republic, the Netherlands, Ireland, and Singapore, among others, in addition to our United States operations. International revenue accounted for approximately 51.9% of our total consolidated net revenue for the three months ended October 31, 2014. A portion of our international revenue, cost of revenue and operating expenses are denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating results. There is also additional risk if the foreign currency is not freely traded. Some currencies, such as the Chinese Renminbi, are subject to limitations on conversion into other currencies, which can limit or delay our ability to repatriate funds or engage in hedging activities. While we may enter into forward currency exchange contracts to manage a portion of our exposure to foreign currencies, future exchange rate fluctuations may have a material adverse effect on our business and operating results.

There are other risks inherent in conducting international operations, including:

added fulfillment complexities in operations, including multiple languages, currencies, bills of materials and stock keeping units;

the complexity of ensuring compliance with multiple U.S. and foreign laws, particularly differing laws on intellectual property rights, export control, taxation and duties; and

labor practices, difficulties in staffing and managing foreign operations, political and social instability, health crises or similar issues, and potentially adverse tax consequences.

In addition, a substantial portion of our business is conducted in China, where we face additional risks, including the following:

the challenge of navigating a complex set of licensing and tax requirements and restrictions affecting the conduct of business in China by foreign companies;

difficulties and limitations on the repatriation of cash;

currency fluctuation and exchange rate risks;

protection of intellectual property, both for us and our clients;

evolving regulatory systems and standards, including recent tax law changes;

difficulty retaining management personnel and skilled employees; and

Our international operations increase our exposure to international laws and regulations. Noncompliance with foreign laws and regulations, which are often complex and subject to variation and unexpected changes, could result in unexpected costs and potential litigation. For example, the governments of foreign countries might attempt to regulate our products and services or levy sales or other taxes relating to our activities; foreign countries may impose tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers; or a governmental authority could make an unfavorable determination regarding our operations, any of which could make it more difficult to conduct our business and have a material adverse effect on our business and operating results.

If we are unable to manage these risks, we may face significant liability, our international sales may decline and our business, operating and financial results may be adversely affected.

We may be affected by strikes, work stoppages and slowdowns by our employees.

Some of our international employees are covered by collective bargaining agreements or represented by labor unions. We believe our relations with our employees are generally good; however, we may experience strikes, work stoppages or slowdowns by employees. A strike, work stoppage or slowdown may affect our ability to meet our clients' needs, which may result in the loss of business and clients and have a material adverse effect on our financial condition and results of operations. The terms of future collective bargaining agreements also may affect our competitive position, our financial condition and results of operations.

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Change in our effective tax rate may harm our results of operations.

A number of factors may increase our future effective tax rates, including:

the jurisdictions in which profits are determined to be earned and taxed;

the resolution of issues arising from tax audits with various tax authorities;

changes in the valuation of our deferred tax assets and liabilities;

adjustments to estimated taxes upon finalization of various tax returns;

increases in expenses not deductible for tax purposes, including write-offs of acquired in-process R&D, impact of costs associated with business combinations and impairments of goodwill in connection with acquisitions;

changes in available tax credits;

changes in share-based compensation;

changes in tax laws or the interpretation of such tax laws, and changes in generally accepted accounting principles;

the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes;

increases in tax rates in various jurisdictions; and

Any significant increase in our future effective tax rates could reduce net income for future periods.

The gross margins in the Supply Chain Business are low, which magnify the impact of variations in revenue and operating costs on our financial results.

As a result of intense price competition in the technology products marketplace, the gross margins in our Supply Chain Business are low, and we expect them to continue to be low in the future. These low gross margins magnify the impact of variations in revenue and operating costs on our financial results. Although we have identified initiatives designed to increase our gross margins, increased competition arising from industry consolidation and/or low demand for products may hinder our ability to maintain or improve our gross margins. Portions of our operating expenses are relatively fixed, and planned expenditures are based in part on anticipated orders. Our current ability to forecast the

amount and timing of future order volumes is difficult, and we expect this to continue because we are highly dependent upon the business needs of our clients, which are highly variable. As a result, we may not be able to reduce our operating expenses as a percentage of revenue to mitigate any further reductions in gross margins. We may also be required to spend money to restructure our operations should future demand fall significantly in any one facility. If we cannot proportionately decrease our cost structure in response to competitive price pressures, our business, financial condition and operating results could be adversely affected.

We continue to be subject to intense competition.

The markets for our services are highly competitive and often lack significant barriers to entry enabling new businesses to enter these markets relatively easily. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with our offerings. The market for supply chain management products and services is very competitive, and the intensity of the competition is expected to increase. Any failure to maintain and enhance our competitive position would limit our ability to maintain and increase market share, which could result in serious harm to our business. Increased competition may also result in price reductions, reduced gross margins and loss of market share. In addition, many of our current and potential competitors will continue to have greater financial, technical, operational and marketing resources. We may not be able to compete successfully against these competitors. Competitive pressures may also force prices for supply chain management products and services down and these price reductions may reduce our revenue. The competition we face may also increase as a result of consolidation within the supply chain management and logistics industries. For example, if as a result of consolidation, our competitors are able to obtain more favorable terms from their suppliers, offer more comprehensive services to their customers, or otherwise take actions that increase their competitive strengths, our competitive position and therefore our business, results of operations and financial condition may be materially adversely affected.

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The trend toward outsourcing of supply chain management and logistics activities, either globally or within specific industries that we serve, may change, thereby reducing demand for our services.

Our growth strategy is partially based on the assumption that the trend toward outsourcing of supply chain management and logistics services will continue. Third-party service providers like ourselves are generally able to provide such services more efficiently than otherwise could be provided in-house, primarily as a result of our expertise and lower and more flexible employee cost structure. However, many factors could cause a reversal in the outsourcing trend. For example, our clients may see risks in relying on third-party service providers, or they may begin to define supply chain management and logistics activities as within their core competencies and decide to perform these operations themselves. If our clients are able to develop supply chain management expertise or improve the cost structure of their in-house supply chain activities, we may not be able to provide such clients with an attractive alternative for their supply chain management and logistics needs. If our clients in-source significant aspects of their supply chain operations, or if potential new clients decide to continue to perform their own supply chain activities in-house, our business, results of operations and financial condition may be materially adversely affected.

The physical or intellectual property of our clients may be damaged, misappropriated, stolen or lost while in our possession, subjecting us to litigation and other adverse consequences.

In the course of providing supply chain management services to our clients, we often have possession of or access to their physical and intellectual property, including consigned inventory, databases, software masters, certificates of authenticity and similar valuable physical or intellectual property. If this physical or intellectual property is damaged, misappropriated, stolen or lost, we could suffer:

claims under client agreements or applicable law, or other liability for damages;

delayed or lost revenue due to adverse client reaction;

negative publicity; and

litigation that could be costly and time consuming.

We could be subject to infringement claims and other liabilities.

From time to time, we have been, and will continue to be, subject to third-party claims in the ordinary course of business, including claims of alleged infringement of intellectual property rights. These claims may damage our business by:

subjecting us to significant liability for damages;

resulting in invalidation of our proprietary rights;

resulting in costly license fees in order to settle the claims;

being time-consuming and expensive to defend even if the claims are not meritorious; and

resulting in the diversion of our management's time and attention.

We may be liable if third parties misappropriate personal information of our clients' customers.

We often handle personal information as part of our e-Business offering. Any security breach or inadvertent release of this information could expose us to risks of loss, litigation and liability and could seriously disrupt our operations. If third parties are able to penetrate our network or telecommunications security or otherwise misappropriate the personal information or credit card information of our clients' customers or if we give third parties improper access to such information, we could be subject to liability. This liability could include claims for unauthorized purchases with credit card information, impersonation or other similar fraud claims. They could also include claims for other misuses of personal information, including unauthorized marketing purposes. These claims could result in litigation. Liability for misappropriation of this information could be significant. Further, any resulting adverse publicity arising from investigations could have a material adverse impact on our business.

We depend on third-party software, systems and services.

Our business and operations rely on third parties to provide products and services, including IT products and services, and shipping and transportation services. We may experience operational problems attributable to the installation, implementation, integration, performance, features or functionality of third-party software, systems and services. Any interruption in the availability or usage of the products and services provided by third parties could have a material adverse effect on our business or operations.

Table of Contents***OTHER RISKS ASSOCIATED WITH THE COMPANY******We may be unable to realize the benefits of our net operating loss carry-forwards (NOLs).***

NOLs may be carried forward to offset federal and state taxable income in future years and eliminate income taxes otherwise payable on such taxable income, subject to certain adjustments. Based on current federal and state corporate income tax rates, our NOLs and other carry-forwards could provide a benefit to us, if fully utilized, of significant future tax savings. However, our ability to use these tax benefits in future years will depend upon the amount of our otherwise federal and state taxable income. If we do not have sufficient federal and state taxable income in future years to use the tax benefits before they expire, we will lose the benefit of these NOLs permanently. Consequently, in addition to dependence on the generation of future business profits, our ability to use the tax benefits associated with our substantial NOLs will depend significantly on our success in identifying suitable acquisition or investment candidates, and once identified, successfully consummating an acquisition of or investment in these candidates.

Additionally, federal NOLs are subject to annual limitations under the change of ownership rules within Section 382 of the Internal Revenue Code. In general, an ownership change occurs when the percentage of stock held by one or more 5-percent shareholders increases by more than 50 percentage points over the lowest stock ownership held by such shareholders at any time within a prescribed period, usually three years. If an ownership change were to occur, we may be unable to use a significant portion of our NOLs to offset taxable income. As discussed in Note 11 to our consolidated financial statements under Item 1, on October 17, 2011, the Company's Board of Directors adopted a Tax Benefit Preservation Plan (Tax Plan) intended to reduce the likelihood that changes in the Company's investor base have the unintended effect of limiting the Company's use of its Tax Benefits. The Tax Plan is intended to require any person acquiring shares of the Company's securities equal to or exceeding 4.99% of the Company's outstanding shares to obtain the approval of the Board of Directors. This would protect the Tax Benefits because changes in ownership by a person owning less than 4.99% of the Company's stock are considered and included in one or more public groups in the calculation of ownership change for purposes of Section 382 of the Code. However, there can be no assurance that the Tax Plan would be effective under all circumstances. On October 9, 2014, the Tax Plan was amended by our Board of Directors to extend the expiration of the Tax Plan until October 17, 2017, subject to stockholder approval at the Company's 2015 annual meeting of stockholders. There is no assurance the stockholders will approve the amendment to the Tax Plan.

The amount of NOLs that we have claimed has not been audited or otherwise validated by the U.S. Internal Revenue Service (IRS). The IRS could challenge our calculation of the amount of our NOLs or our determinations as to when a prior change in ownership occurred, and other provisions of the Internal Revenue Code may limit our ability to carry forward our NOLs to offset taxable income in future years. If the IRS was successful with respect to any such challenge, the potential tax benefit of the NOLs to us could be substantially reduced.

We may have problems raising or accessing capital we need in the future.

In recent years, we have financed our operations and met our capital requirements primarily through funds generated from operations, the sale of our securities and borrowings from lending institutions. Market and other conditions largely beyond our control may affect our ability to engage in future sales of our securities, the timing of any sales, and the amount of proceeds we receive from sales of our securities. Even if we are able to sell our securities in the future, we may not be able to sell at favorable prices or on favorable terms. In addition, this funding source may not be sufficient in the future, and we may need to obtain funding from outside sources. However, we may not be able to obtain funding from outside sources. In addition, even if we find outside funding sources, we may be required to issue to those outside sources securities with greater rights than those currently possessed by holders of our common stock. We may also be required to take other actions, which may lessen the value of our common stock or dilute our

common stockholders, including borrowing money on terms that are not favorable to us or issuing additional shares of common stock. If we experience difficulties raising capital in the future, our business could be materially adversely affected.

If financial institutions that have extended credit commitments to us are adversely affected by the conditions of the U.S. and international capital markets, they may become unable to fund borrowings under their credit commitments to us, which could have an adverse impact on our ability to borrow funds, if needed, for working capital, capital expenditures, acquisitions and other corporate purposes.

We depend on important employees, and the loss of any of those employees may harm our business.

Our performance is substantially dependent on the performance of our executive officers and other key employees, as well as management of our subsidiaries. The familiarity of these individuals with technology and service-related industries makes them especially critical to our success. Our success is also dependent on our ability to attract, train, retain and motivate high quality personnel. Competition for personnel is intense. The loss of the services of any of our executive officers or key employees may harm our business.

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Our strategy of expanding our business through acquisitions of other businesses and technologies presents special risks.

We may expand our business in certain areas through the acquisition of businesses, technologies, products and services from other businesses, as we have in the past. We may also seek to identify new business acquisition opportunities with existing or prospective taxable income, or from which we can realize capital gains, that can be offset by use of our net operating loss carry-forwards. Acquisitions involve a number of special problems, including:

the need to incur additional indebtedness, issue stock (which may have rights superior to the rights of our common stockholders and which may have a dilutive effect on our common stockholders) or use cash in order to complete the acquisition;

difficulty integrating acquired technologies, operations and personnel with the existing businesses;

diversion of management attention in connection with both negotiating the acquisitions and integrating the assets;

strain on managerial and operational resources as management tries to oversee larger operations;

the working capital needs for acquired companies may be significant;

we may acquire a new line of business in which we have no operating history and the success of such new business cannot be assured;

exposure to unforeseen liabilities of acquired companies; and

increased risk of costly and time-consuming litigation, including stockholder lawsuits.

We may not be able to successfully address these problems. Our future operating results may depend to a significant degree on our ability to successfully identify suitable acquisitions, negotiate such acquisitions on acceptable terms, complete such transactions, integrate acquisitions and manage operations.

The price of our common stock has been volatile and may fluctuate.

The market price of our common stock has been and is likely to continue to be volatile. Our common stock has traded as low as \$2.97 per share and as high as \$4.17 per share during the three months ended October 31, 2014. Future market movements unrelated to our performance may adversely affect the market price of our common stock.

Steel Partners Holdings L.P. and its affiliates may have interests that conflict with the interests of our other stockholders and have significant influence over corporate decisions.

Steel Partners Holdings L.P. (Steel Partners), Handy & Harman, Ltd. (HNH), Steel Partners, Ltd. (SPL) and SPH Group Holdings LLC (SPHG Holdings) owned approximately 29% of our outstanding capital stock as of June 5, 2014. Steel Partners, HNH, SPL and SPHG Holdings will be able to influence our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of mergers, consolidations or the sale of all or substantially all of our assets. In addition, this concentration of ownership may have the effect of delaying or preventing a change in control of our Company and might adversely affect the market price of our Common Stock.

Members of our Board of Directors also have significant interests in Steel Partners and its affiliates, which may create conflicts of interest.

Some of the members of our Board of Directors also hold positions with Steel Partners and its affiliates. Specifically, Warren G. Lichtenstein, our Chairman of the Board, is the Executive Chairman of the general partner of Steel Partners and holds various other positions with affiliates of Steel Partners. Glen M. Kassan, a director and Vice Chairman, is also Vice Chairman of the Board of HNH and is the managing director and operating partner of an affiliate of Steel Partners. Anthony Bergamo, a director, is also a director of Steel Partners. As a result, these directors may face potential conflicts of interest with each other and with our stockholders. They may be presented with situations in their capacity as our directors that conflict with their fiduciary obligations to Steel Partners and its affiliates, which in turn may have interests that conflict with the interests of our other stockholders.

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We may incur non-cash impairment charges related to goodwill or long-lived assets.

We test long-lived assets for impairment if a triggering event occurs. Our policy is to perform the annual impairment testing for goodwill on July 31 of each fiscal year or whenever events or circumstances change that would more likely than not reduce the fair value of any of our reporting units below its carrying value. As of October 31, 2014 we had goodwill of \$3.1 million allocated to the e-Business reporting unit, and \$0.4 million of long-lived intangible assets, which primarily related to e-Business. The Company performed its annual impairment test on July 31, 2014 and concluded that there was no impairment to either goodwill or long-lived assets.

Goodwill and long-lived asset impairment analysis and measurement is a process that requires significant judgment and the use of significant estimates related to valuation such as discount rates, long-term growth rates and the level and timing of future cash flows. As a result, several factors could result in the impairment of some or all of our goodwill balance and our long-lived assets in future periods, including, but not limited to further weakening of the global economy, continued weakness in the industry, or failure of the Company to reach our internal forecasts which could impact our ability to achieve our forecasted levels of cash flows.

It is not possible at this time to determine if any such future impairment charge would result from these factors, or if it does, whether such charges would be material. We will continue to review our goodwill and other long-lived assets for possible impairment. We cannot be certain that a downturn in our business or changes in market conditions will not result in an impairment of goodwill or other long-lived assets and the recognition of resulting expenses in future periods, which could adversely affect our results of operations for those periods.

Venture capital investing is risky and highly speculative.

We invest in privately held companies through several wholly-owned subsidiaries, referred to as @Ventures. We receive proceeds from our investments, if at all, only when or after a portfolio company engages in a liquidity event, such as an initial public offering, or the acquisition of a portfolio company or our interest by a third party. Liquidity events may take many years to materialize, if at all, and the timing of liquidity events is difficult to predict. As a result there is much uncertainty as to the timing and impact of our venture capital portfolio on our financial results. Our ability to earn returns on our investment, or even recover our capital, is dependent upon factors outside of our control, including the success of our portfolio companies' businesses, and the market for initial public offerings and mergers and acquisitions. We typically own a minority position in our portfolio companies, which may afford us representation on the board of directors of a portfolio company, and negative and affirmative covenants but does not give us control over the entity. As a result we may have limited, if any, influence over our portfolio companies' businesses and strategies. We cannot assure you that we will earn any returns or recover our invested capital.

Investments made by @Ventures are (i) carried at the lesser of their historic cost basis or net realizable value or (ii) accounted for under the equity method of accounting, if we hold at least 20% but less than 50% of the issued and outstanding stock of the investee. At October 31, 2014, these investments had a carrying value of \$7.2 million.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to significant volatility in our reported results of operations in the past and may negatively impact our results of operations in the future. The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. We did not record any non-cash impairment charges related to our @Ventures investments during the three month periods ended October 31, 2014 and 2013, respectively. The process of assessing whether a particular equity investment's net realizable value is less than its carrying cost requires a significant amount of subjective judgment. We may incur impairment charges to our investments in privately held companies, which could

have an adverse impact on our future results of operations.

Future proxy contests could be disruptive and costly and the possibility that activist stockholders may wage proxy contests or gain representation on or control of our Board of Directors could cause uncertainty about the direction of our business.

Future proxy contests, if any, could be costly and time-consuming, disrupt our operations and divert the attention of management and our employees from executing our strategic plan. Perceived uncertainties as to our future direction as a result of changes to composition of the Board of Directors may lead to the perception of a change in the direction of the business, instability or lack of continuity which may be exploited by our competitors, cause concern to our current or potential clients, and make it more difficult to attract and retain qualified personnel. In addition, disagreement among our directors about the direction of our business could impair our ability to effectively execute our strategic plan.

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We face risks related to the ongoing SEC Inquiry.

As previously disclosed, on February 15, 2012, the Division of Enforcement of the SEC informed the Company that it was conducting an inquiry regarding the Company's treatment of rebates associated with volume discounts provided by vendors. The Company, at the direction of the Audit Committee of the Company's Board of Directors, is cooperating fully with the SEC staff's inquiry. At this point, we are unable to predict what, if any, consequences the SEC inquiry may have on us. However, the inquiry has resulted and could continue to result in considerable legal expenses, divert management's attention from other business concerns and harm our business. If the SEC were to commence legal action, we could be required to pay significant penalties and/or other amounts and could become subject to injunctions, an administrative cease and desist order, and/or other equitable remedies. Concurrent with the SEC inquiry, the Audit Committee of the Company's Board of Directors commenced an investigation of the Company's accounting treatment with regard to rebates received from vendors, and errors were found. In January 2013, we filed restated financial statements for periods ending on or before January 31, 2012, to correct the discovered accounting errors; however, this did not nor was it expected to resolve the SEC inquiry. Further, the resolution of the SEC inquiry could require the filing of additional restatements of our prior financial statements, and/or our restated financial statements, or require that we take other actions not presently contemplated. In the recent past, the SEC has announced that it will increasingly focus in enforcement actions for violations of its rules on action against both companies and individuals at such companies who they determine to have violated such rules. We can provide no assurances as to the outcome of the SEC inquiry, and the outcome could have a material adverse impact on our business.

Litigation pending against us could materially impact our business and results of operations.

We are currently party to various legal and other proceedings. In particular, in January 2013 we filed restated financial statements to correct accounting errors in the Company's treatment of rebates associated with volume discounts provided by vendors, and certain putative class actions and stockholder derivative actions have been filed against us in response to our announcement of the restatement. See Item 3, *Legal Proceedings*. These matters may involve substantial expense to us, which could have a material adverse impact on our financial position and our results of operations. We can provide no assurances as to the outcome of any litigation.

RISKS RELATED TO OUR 5.25% SENIOR CONVERTIBLE NOTES

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our financial and operating performance, which is subject to economic, financial, competitive and other factors, some which are beyond our control. We cannot assure you that we will be able to generate cash flow or that we will be able to borrow funds in amounts sufficient to enable us to service our debt, meet working capital requirements and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital and credit markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

Despite existing debt levels, we may incur substantially more debt, which would increase the risks associated with our leverage.

We and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments at that time, some of which may be secured debt. The Indenture governing the Notes does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness, transactions with affiliates, incurrence of liens or the issuance or repurchase of securities by us or any of our subsidiaries. As a result, we will not be restricted under the terms of the indenture governing the notes from incurring additional debt, securing existing or future debt or recapitalizing our debt. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify and could further exacerbate the risks associated with our leverage.

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The following table provides information about purchases by the Company of its common stock during the quarter ended October 31, 2014:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
August 1, 2014 - August 31, 2014	(1)	\$		\$
September 1, 2014 - September 30, 2014	(1)			
October 1, 2014 - October 31, 2014	(1)			

(1) Consists of shares delivered to the Company as payment of tax liability upon the vesting of shares of restricted stock. No shares vested during the quarter ended October 31, 2014.

Item 3. Default Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

The Exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed with, or incorporated by reference in, this report.

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SIGNATURE

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

MODUSLINK GLOBAL SOLUTIONS, INC.

Date: December 10, 2014

By: /S/ JOSEPH B. SHERK
JOSEPH B. SHERK
Principal Financial Officer

and Principal Accounting Officer

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EXHIBIT INDEX

- 31.1* Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of the Principal Financial Officer and Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1± Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2± Certification of the Principal Financial Officer and Principal Accounting Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Unaudited Condensed Consolidated Balance Sheets as of October 31, 2014 and July 31, 2014, (ii) Unaudited Condensed Consolidated Statements of Operations for the Three Months ended October 31, 2014 and 2013, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months ended October 31, 2014 and 2013 (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months ended October 31, 2014 and 2013 and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

* Filed herewith.

± Furnished herewith.