ModusLink Global Solutions Inc
Form 10-Q
December 07, 2016
Table of Contents

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, 2016

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	**04-2921333**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
1601 Trapelo Road, Suite 170	
Waltham, Massachusetts	**02451**
(Address of principal executive offices)	**(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

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, 2016, there were 55,253,581 shares issued and outstanding of the registrant s Common Stock, $0.01 par value per share.

Table of Contents

MODUSLINK GLOBAL SOLUTIONS, INC.

FORM 10-Q

TABLE OF CONTENTS

		Page Number
Part I.	**FINANCIAL INFORMATION**	
Item 1.	Condensed Consolidated Financial Statements	3
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	30
Item 4.	Controls and Procedures	31
Part II.	**OTHER INFORMATION**	
Item 1.	Legal Proceedings	33
Item 1A.	Risk Factors	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3.	Default Upon Senior Securities	33
Item 4.	Mine Safety Disclosures	33
Item 5.	Other Information	33
Item 6.	Exhibits	33

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	October 31, 2016	July 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 105,284	$ 130,790
Trading securities	14,943	16,768
Accounts receivable, trade, net of allowance for doubtful accounts of $490 and $489 at October 31, 2016 and July 31, 2016, respectively	128,534	111,336
Inventories	46,366	40,270
Funds held for clients	16,190	12,549
Prepaid expenses and other current assets	5,697	8,178
Total current assets	317,014	319,891
Property and equipment, net	21,826	22,271
Other assets	6,343	5,770
Total assets	$ 345,183	$ 347,932
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 109,222	$ 114,432
Accrued restructuring	1,619	2,936
Accrued expenses	42,406	37,740
Other current liabilities	47,719	39,658
Total current liabilities	200,966	194,766
Long-term portion of accrued restructuring	94	93
Notes payable	58,193	57,169
Other long-term liabilities	9,196	9,964
Long-term liabilities	67,483	67,226
Total liabilities	268,449	261,992

Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding shares at October 31, 2016 and July 31, 2016		
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; 55,253,581 issued and outstanding shares at October 31, 2016; 55,249,076 issued and outstanding shares at July 31, 2016	553	553
Additional paid-in capital	7,456,689	7,456,490
Accumulated deficit	(7,381,665)	(7,373,122)
Accumulated other comprehensive income	1,157	2,019
Total stockholders equity	76,734	85,940
Total liabilities and stockholders equity	$ 345,183	$ 347,932

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended October 31,	
	2016	**2015**
Net revenue	$ 121,327	$ 141,089
Cost of revenue	111,994	128,637
Gross profit	9,333	12,452
Operating expenses		
Selling, general and administrative	13,601	13,014
Restructuring, net	1,374	1,007
Total operating expenses	14,975	14,021
Operating loss	(5,642)	(1,569)
Other income (expense):		
Interest income	165	88
Interest expense	(2,029)	(2,729)
Other gains (losses), net	(488)	(9,671)
Impairment of investments in affiliates		(42)
Total other expense	(2,352)	(12,354)
Loss before income taxes	(7,994)	(13,923)
Income tax expense	1,049	850
Gains on investments in affiliates, net of tax	(500)	
Net loss	$ (8,543)	$ (14,773)
Basic and diluted net loss per share:	$ (0.16)	$ (0.29)
Weighted average common shares used in basic and diluted earnings per share	54,991	51,766

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,	
	2016	**2015**
Net loss	$ (8,543)	$ (14,773)
Other comprehensive loss:		
Foreign currency translation adjustment	(1,269)	(869)
Pension liability adjustments, net of tax	397	
Net unrealized holding gain on securities, net of tax	10	28
Other comprehensive loss	(862)	(841)
Comprehensive loss	$ (9,405)	$ (15,614)

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended October 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	$ (8,543)	$ (14,773)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,022	1,955
Amortization of deferred financing costs	155	145
Accretion of debt discount	941	1,215
Share-based compensation	192	456
Non-cash (gains) losses, net	488	8,433
(Gains) losses on investments in affiliates and impairments	(500)	42
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(18,208)	(39,850)
Inventories	(6,691)	(9,523)
Prepaid expenses and other current assets	(1,235)	(17,099)
Accounts payable, accrued restructuring and accrued expenses	429	65,886
Refundable and accrued income taxes, net	(371)	820
Other assets and liabilities	1,540	619
Net cash used in operating activities	(29,781)	(1,674)
Cash flows from investing activities:		
Additions to property and equipment	(1,828)	(2,053)
Proceeds from the sale of Trading Securities	907	28,939
Investments in affiliates		(42)
Proceeds from investments in affiliates	500	
Net cash provided by (used in) investing activities	(421)	26,844
Cash flows from financing activities:		
Repayments on capital lease obligations	(62)	(57)
Net proceeds from revolving line of credit	4,978	
Proceeds from issuance of common stock	7	
Net cash provided by (used in) financing activities	4,923	(57)
Net effect of exchange rate changes on cash and cash equivalents	(227)	(401)

Net increase (decrease) in cash and cash equivalents	(25,506)	24,712
Cash and cash equivalents at beginning of period	130,790	119,431
Cash and cash equivalents at end of period	$ 105,284	$ 144,143

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents

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), is a leader in global supply chain business process management serving clients in markets such as consumer electronics, communications, computing, medical devices, software, and retail. The Company designs and executes critical elements in its clients global supply chains to improve speed to market, product customization, flexibility, cost, quality and service. These benefits are delivered through a combination of industry expertise, innovative service solutions, integrated operations, proven business processes, expansive global footprint and world-class technology.

The Company has an integrated network of strategically located facilities in various countries, including numerous sites throughout North America, Europe and Asia. 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, 2016, which are contained in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on October 14, 2016. The results for the three months ended October 31, 2016 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, 2016, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

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 2019 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 ASU No. 2014-15 Presentation of Financial Statements Going Concern (Subtopic 205-40), which amends 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 events 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 the first quarter of fiscal year 2018. The new guidance is not anticipated to have an effect on the Company s consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02 Consolidation (Topic 810), Amendments to Consolidation Analysis, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The Company adopted this guidance beginning in the first quarter of fiscal year 2017. Its adoption did not have a material impact on the Company s consolidated financial statements and related disclosures.

Table of Contents

In April 2015, the FASB issued ASU No. 2015-03, Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. The Company adopted this guidance beginning in the first quarter of fiscal year 2017. Upon adoption, an entity must apply the guidance retrospectively to all prior periods presented in the financial statements. As such, the prior year consolidated balance sheets were also adjusted.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (Topic 330), which provides guidance related to inventory measurement. The new standard requires entities to measure inventory at the lower of cost and net realizable value thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The new standard is effective for the Company beginning in the first quarter of fiscal year 2018. The Company is currently evaluating the effect the guidance will have on the Company s financial statement disclosures, results of operations and financial position.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. This guidance allows for adoption on either a prospective or retrospective basis. This guidance will be effective on January 1, 2017. Early adoption is permitted. The Company has elected to early adopt this guidance on a prospective basis and, as a result, prior consolidated balance sheets were not retrospectively adjusted. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today s accounting. This ASU will be effective for the Company beginning in the first quarter of fiscal year 2020. The Company is currently evaluating the effect the guidance will have on the Company s financial statement disclosures, results of operations and financial position.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments in this update relate to when another party, along with the Company, are involved in providing a good or service to a customer and are intended to improve the operability and understandability of the implementation guidance on principal versus agent. Revenue recognition guidance requires companies to determine whether the nature of its promise is to provide that good or service to the customer (i.e., the Company is a principal) or to arrange for the good or service to be provided to the customer by the other party (i.e., the Company is an agent). This ASU will be effective for the Company beginning in the first quarter of fiscal year 2019. The Company is currently in the process of assessing what impact this new update may have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This ASU will be effective for the Company beginning in the first quarter of fiscal year 2018. The Company is currently in the process of assessing what impact this new standard may have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. Entities

will also have to disclose the nature of their restricted cash and restricted cash equivalent balances, which is similar to what is required today for Securities and Exchange Commission Registrants. This ASU will be effective for the Company beginning in the first quarter of fiscal year 2019. The Company is currently in the process of assessing what impact this new standard may have on its combined 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 typically procures on behalf of its clients that are included in inventory include materials such as compact discs, printed materials, manuals, labels, hardware accessories, hard disk drives, phone chassis, consumer packaging, shipping boxes and labels, power cords and cables for client-owned electronic devices.

Table of Contents

Inventories consisted of the following:

	October 31, 2016	July 31, 2016
	(In thousands)	
Raw materials	$ 32,457	$ 28,506
Work-in-process	826	590
Finished goods	13,083	11,174
	$ 46,366	$ 40,270

The Company continuously monitors inventory balances and records inventory provisions 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 demands. The Company s inventory methodology is based on assumptions about average shelf life of inventory, forecasted volumes, forecasted selling prices, contractual provisions with our clients, write-down history of inventory and market conditions. 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 client requirements, additional inventory provisions 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. Accordingly, if inventory previously written down to its net realizable value is subsequently sold, gross profit margins may be favorably impacted.

Table of Contents

(5) INVESTMENTS

Trading Securities

During the three months ended October 31, 2016, the Company received $0.9 million in proceeds associated with the sale of Trading Securities, which included an immaterial cash gain. During the three months ended October 31, 2016, the Company recognized $0.9 million in net non-cash net losses associated with its Trading Securities. During the three months ended October 31, 2015, the Company received $28.9 million in proceeds associated with the sale of Trading Securities, which included a cash gain of $4.3 million. During the three months ended October 31, 2015, the Company recognized $13.8 million in net non-cash net losses associated with its Trading Securities. These losses were recorded as a component of Other gains (losses), net on the Statement of Operations.

As of October 31, 2016, the Company had $14.9 million in investments in trading securities, $11.7 million of which were the publicly traded convertible debentures. As of July 31, 2016, the Company had $16.8 million in investments in trading securities, $12.6 million of which were the publicly traded convertible debentures. The Company s purchases of the publicly traded convertible debentures were 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.

(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

The following table reflects the components of Accrued expenses and Other current liabilities :

	October 31, 2016	July 31, 2016
	(In thousands)	
Accrued taxes	$ 2,863	$ 3,068
Accrued compensation	8,756	9,590
Accrued interest	388	1,346
Accrued audit, tax and legal	2,370	2,544
Accrued contract labor	5,820	2,966
Accrued other	22,209	18,226
	$ 42,406	$ 37,740

	October 31, 2016	July 31, 2016
	(In thousands)	
Accrued pricing liabilities	$ 18,882	$ 18,882
Line of credit liability	4,978	
Funds held for clients	16,190	12,549
Other	7,669	8,227
	$ 47,719	$ 39,658

As of October 31, 2016 and July 31, 2016, the Company had accrued pricing liabilities of approximately $18.9 million for both periods. 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, 2016 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.

Table of Contents

(7) RESTRUCTURING, NET

Restructuring and other costs for the three months ended October 31, 2016 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, 2017. 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 the end of December 2017.

The $1.4 million restructuring charge recorded during the three months ended October 31, 2016 primarily consisted of $0.2 million, $0.4 million and $0.5 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 50 employees in our global supply chain. Of this amount, $0.3 million related to contractual obligations. The $1.0 million restructuring charge recorded during the three months ended October 31, 2015 primarily consisted of $0.8 million and $0.3 million employee-related costs in the Americas and Asia, respectively, related to the workforce reduction of 55 employees in our global supply chain.

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, 2016:

	Employee Related Expenses	Contractual Obligations	Total
		(In thousands)	
Accrued restructuring balance at July 31, 2016	$ 2,074	$ 955	$ 3,029
Restructuring charges	1,101	286	1,387
Restructuring adjustments	(10)	(3)	(13)
Cash paid	(1,803)	(883)	(2,686)
Non-cash adjustments	(4)		(4)
Accrued restructuring balance at October 31, 2016	$ 1,358	$ 355	$ 1,713

Table of Contents

	Americas	Asia	Europe	e-Business	Consolidated Total
			(In thousands)		
Accrued restructuring balance at July 31, 2016	$ 862	$ 894	$ 398	$ 875	$ 3,029
Restructuring charges	287	513	539	48	1,387
Restructuring adjustments	10	(4)	2	(21)	(13)
Cash paid	(580)	(995)	(564)	(547)	(2,686)
Non-cash adjustments		(2)	(2)		(4)
Accrued restructuring balance at October 31, 2016	$ 579	$ 406	$ 373	$ 355	$ 1,713

The net restructuring charges for the three months ended October 31, 2016 and 2015 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,	
	2016	2015
	(In thousands)	
Cost of revenue	$ 581	$ 815
Selling, general and administrative	793	192
	$ 1,374	$ 1,007

(8) DEBT

Notes Payable

On March 18, 2014, the Company entered into an indenture (the Indenture) with Wells Fargo Bank, National Association, as 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 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. As of October 31, 2016, the if-converted value of the Notes did not exceed the principal value of the Notes.

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 quarter ended October 31, 2016.

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.

Table of Contents

Per the Indenture, if the Notes are assigned a restricted CUSIP or the Notes are not otherwise freely tradable by holders at any time during the three months immediately preceding as of the 365th day after the last date of original issuance of the Notes, the Company shall pay additional interest on the Notes at a rate equal to 0.50% per annum of the principal amount of Notes outstanding until the restrictive legend on the Notes has been removed. The restrictive legend was removed on August 26, 2015 and, as such, the Company paid $0.2 million in additional interest associated with this restriction.

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. During the first quarter of fiscal year 2017, the Company adopted ASU No. 2015-07. As such, the issuance costs allocated to the liability component ($2.5 million) are capitalized as a reduction of the principal amount of the Notes payable on the Company s balance sheet and amortized, using the effective-interest method, as additional interest expense over the term of the Notes. The issuance costs allocated to the equity component is recorded as a reduction to additional paid-in capital.

During the quarter ended April 30, 2016, the Company purchased $0.5 million in face value of the Notes in the open market at a purchase price of $0.4 million. During the quarter ended July 31, 2016, the Company purchased $2.0 million in face value of the Notes in the open market at a purchase price of $1.4 million. On July 21, 2016, the Company entered into an agreement with Highbridge International LLC and Highbridge Tactical Credit & Convertibles Master Fund, L.P. (together Highbridge) for the repurchase $27.9 million in face value of the Notes. The consideration paid to Highbridge included 2.7 million in newly issued shares of the Company s common stock, par value $0.01 per share, a cash payment of $18.5 million and a cash payment in the amount of the unpaid interest ($0.6 million). The transaction was executed in a private transaction and closed on July 27, 2016. The Notes were cancelled following closing.

The fair value of the Company s Notes payable, calculated as of the closing price of the traded securities, was $57.1 million and $51.0 million as of October 31, 2016 and July 31, 2016, respectively. This value does not represent the settlement value of these long-term debt liabilities to the Company. 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, 2016 and July 31, 2016, the net carrying value of the Notes was $58.2 million and $57.2 million, respectively.

	October 31, 2016	July 31, 2016
	(In thousands)	
Carrying amount of equity component (net of allocated debt issuance costs)	$ 27,099	$ 27,099
Principal amount of Notes	$ 69,625	$ 69,625
Unamortized debt discount	(10,502)	(11,443)
Unamortized debt issuance costs	(930)	(1,013)

Net carrying amount	$ 58,193	$ 57,169

Table of Contents

As of October 31, 2016, the remaining period over which the unamortized discount will be amortized is 28 months.

	Three Months Ended October 31,	
	2016	2015
	(In thousands)	
Interest expense related to contractual interest coupon	$ 935	$ 1,323
Interest expense related to accretion of the discount	941	1,215
Interest expense related to debt issuance costs	83	108
	$ 1,959	$ 2,646

During the three months ended October 31, 2016 and 2015, we recognized interest expense of $2.0 million and $2.6 million, respectively, related to the Notes. The effective interest rate on the Notes, including amortization of debt issuance costs and accretion of the discount, is 13.9%. The notes bear interest of 5.25%.

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 (as amended, 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 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.

Table of Contents

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, 2016, the Company did not meet the criteria that would cause its financial covenants to be applicable. As of October 31, 2016, the Company had $5.0 million outstanding on the PNC Bank credit facility. As of July 31, 2016, the Company did not have any balance outstanding on the PNC Bank credit facility.

(9) CONTINGENCIES

On June 8, 2015, Sean Peters, a former employee filed a complaint (the Complaint) against ModusLink Corporation in Superior Court of California asserting claims, among other things, for failure to pay wages, breach of contract, wrongful retaliation and termination, fraud, violations of California Business and Professions Code Section 17200, et seq., and civil penalties pursuant to California Labor Code Sections and pursuant to the California Private Attorney General Act, seeking over $1.0 million in damages, attorneys fees and costs and penalties. ModusLink filed an Answer to the Complaint making a general denial and asserting various affirmative defenses. The parties are currently engaged in discovery. Although there can be no assurance as to the ultimate outcome, ModusLink believes it has meritorious defenses and intends to defend the allegations vigorously.

(10) OTHER GAINS (LOSSES), NET

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

	Three Months Ended October 31,	
	2016	2015
	(In thousands)	
Foreign currency exchange gain (losses)	$ 397	$ (574)
Gains (losses) on Trading Securities	(917)	(9,463)
Other, net	32	366
	$ (488)	$ (9,671)

The Company recorded foreign exchange gains of approximately $0.4 million during the three months ended October 31, 2016. For the three months ended October 31, 2016, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately $0.7 million and $(0.2) million in the Corporate and Europe, respectively. The Company recorded foreign exchange losses of

approximately $0.6 million during the three months ended October 31, 2015. For the three months ended October 31, 2015, the net gains primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately $0.6 million and $0.3 million in Asia and Europe, respectively.

During the three months ended October 31, 2016 and 2015, the Company recognized $0.9 million and $13.8 million in net non-cash losses, respectively, associated with its Trading Securities. During the three months ended October 31, 2015, the Company recognized $4.3 million in net cash gains associated with its Trading Securities. In addition to this, during the three months ended October 31, 2015, the Company recognized $0.3 in net gains associated with short-term foreign currency contracts.

(11) INCOME TAXES

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the three months ended October 31, 2016, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of October 31, 2016 and July 31, 2016, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately $0.7 and $1.2 million, respectively.

Table of Contents

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, 2016 and July 31, 2016, 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, 2012 through July 31, 2016. 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 2009 through 2016 tax years remain subject to examination in most locations, while the Company s 2005 through 2016 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.

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. Following the stockholders approval of the Protective Amendment (as described below) at the Company s 2014 Annual Meeting, the Tax Plan was further amended so that it expired at the close of business on December 31, 2014.

Protective Amendment

On December 29, 2014, the Company filed an Amendment to its Restated Certificate of Incorporation (the Protective Amendment) with the Delaware Secretary of State to protect the significant potential long-term tax benefits presented by its net operating losses and other tax benefits (collectively, the NOLs). The Protective Amendment was approved by the Company s stockholders at the Company s 2014 Annual Meeting of Stockholders held on December 9, 2014. As a result of the filing of the Protective Amendment with the Delaware Secretary of State, the Company amended its Tax Benefit Preservation Plan so that it expired at the close of business on December 31, 2014.

The Protective Amendment limits certain transfers of the Company s common stock, to assist the Company in protecting the long-term value of its accumulated NOLs. The Protective Amendment s transfer restrictions generally restrict any direct or indirect transfers of the common stock if the effect would be to increase the direct or indirect ownership of the common stock by any person (as defined in the Protective Amendment) from less than 4.99% to 4.99% or more of the common stock, or increase the percentage of the common stock owned directly or indirectly by a Person owning or deemed to own 4.99% or more of the common stock. Any direct

Table of Contents

or indirect transfer attempted in violation of the Protective Amendment will be void as of the date of the prohibited transfer as to the purported transferee. The Board of Directors of the Company has discretion to grant waivers to permit transfers otherwise restricted by the Protective Amendment. In accordance with the Protective Amendment, Handy & Harman (HNH), a related party, requested, and the Company granted HNH and its affiliates, a waiver under the Protective Amendment to permit their acquisition of up to 45% of the Company s outstanding shares of common stock in the aggregate (subject to proportionate adjustment, the 45% Cap), in addition to acquisitions of common stock in connection with the exercise of certain warrants of the Company (the Warrants) held by Steel Partners Holdings L.P. (SPH), an affiliate of HNH, as well as a limited waiver under Section 203 of the Delaware General Corporation Law for this purpose. Notwithstanding the foregoing, HNH and its affiliates (and any group of which HNH or any of its affiliates is a member) are not permitted to acquire securities that would result in an ownership change of the Company for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, that would have the effect of impairing any of the Company s NOLs. The foregoing waiver was approved by the independent directors of the Company.

(12) EARNINGS PER SHARE

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, 2016 and 2015:

	Three Months Ended October 31,	
	2016	2015
	(In thousands, except per share data)	
Net loss	$ (8,543)	$ (14,773)
Weighted average common shares outstanding	54,991	51,766
Weighted average common equivalent shares arising from dilutive stock options and restricted stock		
Weighted average number of common and potential common shares	54,991	51,766
Basic and diluted net loss per share	$ (0.16)	$ (0.29)

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 shares issuable upon debt conversion (calculated using an as-if converted method).

For the three months ended October 31, 2016 and 2015, approximately 14.9 million and 21.7 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

(13) 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, 2016 and 2015, which was allocated as follows:

	Three Months Ended October 31,	
	2016	2015
	(In thousands)	
Cost of revenue	$ 16	$ 31
Selling, general and administrative	176	425
	$ 192	$ 456

At October 31, 2016, there was approximately $0.2 million of total unrecognized compensation cost related to Stock Options issued under the Company s plans. At October 31, 2016, there was approximately $0.1 million of total unrecognized compensation cost related to non-vested share-based compensation awards under the Company s plans.

(14) 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 (loss) at July 31, 2016	$ 6,131	$ (4,206)	$ 94	$ 2,019
Foreign currency translation adjustment	(1,269)			(1,269)
Pension liability adjustments		397		397
Net unrealized holding gain on securities			10	10
Net current-period other comprehensive income (loss)	(1,269)	397	10	(862)
Accumulated other comprehensive income (loss) at October 31, 2016	$ 4,862	$ (3,809)	$ 104	$ 1,157

(15) 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 four reportable segments: Americas, Asia, Europe and e-Business. During the prior year, the Company had determined that it had three reportable segments: Americas; Asia; and Europe. e-Business was reported as a part of the All Other category in the prior year. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance and public reporting costs, 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. The Company has recently had personnel reductions and facility consolidations, and is undergoing operational changes. Therefore, in the future, as the Company evolves, adjustments may be made as to how the Company allocates resources and analyzes performance, which can result in a change to these segments.

Table of Contents

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

	Three Months Ended October 31,	
	2016	2015
	(In thousands)	
Net revenue:		
Americas	$ 25,878	$ 33,211
Asia	42,873	53,931
Europe	45,181	44,743
e-Business	7,395	9,204
	$ 121,327	$ 141,089
Operating income (loss):		
Americas	$ (3,856)	$ (3,086)
Asia	1,777	3,371
Europe	(2,591)	207
e-Business	344	(504)
Total Segment operating income (loss)	(4,326)	(12)
Corporate-level activity	(1,316)	(1,557)
Total operating loss	(5,642)	(1,569)
Total other expense	2,352	12,354
Loss before income taxes	$ (7,994)	$ (13,923)

	October 31, 2016	July 31, 2016
	(In thousands)	
Total assets:		
Americas	$ 30,451	$ 28,280
Asia	89,797	89,242
Europe	75,156	75,952
e-Business	32,235	22,884
Sub-total - segment assets	227,639	216,358
Corporate	117,544	131,574
	$ 345,183	$ 347,932

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

	Three Months Ended October 31,	
	2016	2015
	(In thousands)	
Supply chain services	$ 113,932	$ 131,885
e-Business services	7,395	9,204
	$ 121,327	$ 141,089

As of October 31, 2016, approximately $11.6 million, $3.6 million, $3.4 million and $2.8 million of the Company s long-lived assets were located in the U.S.A., Netherlands, Ireland and China, respectively. As of July 31, 2016, approximately $12.3 million, $3.0 million, $3.5 million and $3.0 million of the Company s long-lived assets were located in the U.S.A., Netherlands, Ireland and China, respectively.

Table of Contents

For the three months ended October 31, 2016, the Company s net revenues within U.S.A., China, Netherlands and Czech Republic were $26.9 million, $36.2 million, $16.9 million and $26.3 million, respectively. For the three months ended October 31, 2015, the Company s net revenues within U.S.A., China, Netherlands and Czech Republic were $35.1 million, $37.5 million, $20.7 million and $22.3 million, respectively.

(16) RELATED PARTY TRANSACTIONS

On December 24, 2014, the Company entered into a Management Services Agreement with SP Corporate Services LLC (SP Corporate), effective as of January 1, 2015 (as amended, the Management Services Agreement). SP Corporate is an indirect wholly owned subsidiary of Steel Partners Holdings L.P. (Steel Holdings) and is a related party. Pursuant to the Management Services Agreement, SP Corporate provided the Company and its subsidiaries with the services of certain employees, including certain executive officers, and other corporate services.

The Management Services Agreement had an initial term of six months. On June 30, 2015, the Company entered into an amendment that extended the term of the Management Services Agreement to December 31, 2015 and provided for automatic renewal for successive one year periods, unless and until terminated.in accordance with the terms set forth therein, which include, under certain circumstances, the payment by the Company of certain termination fees to SP Corporate. On March 10, 2016, the Company entered into a Second Amendment to the Management Services Agreement with SPH Services, Inc. (SPH Services) pursuant to which SPH Services assumed rights and responsibilities of SP Corporate and the services provided by SPH Services to the Company were modified pursuant to the terms of the amendment. SPH Services is the parent of SP Corporate and an affiliate of SPH Group Holdings LLC. Also on March 10, 2016, the Company entered into a Transfer Agreement with SPH Services pursuant to which the parties agreed to transfer to the Company certain individuals who provide corporate services to the Company.

Under the Management Services Agreement, the Company pays a fixed monthly fee of $175,000 in consideration for the services and incremental costs as incurred. The fees payable under the Management Services Agreement are subject to review and such adjustments as may be agreed upon by the parties. Total expenses incurred related to the Management Services Agreement for the three months ended October 31, 2016 and 2015 were $0.5 million and $0.5 million, respectively. As of October 31, 2016, no amounts were due to SPH Services. As of July 31, 2016, amounts due to SP Corporate SPH Services were $0.5 million.

The Related Party Transactions Committee of the Board (the Related Party Transactions Committee) approved the entry into the Management Services Agreement (and the amendment thereto) and the Transfer Agreement. The Related Party Transactions Committee held the responsibility to review, approve and ratify related party transactions from November 20, 2014, until October 11, 2016. On October 11, 2016, the Board adopted a Related Person Transaction Policy that is administered by the Audit Committee and applies to all related party transactions. As of October 11, 2016, the Audit Committee of the Board reviews all related party transactions on an ongoing basis and all such transactions must be approved or ratified by the Audit Committee.

Mutual Securities, Inc. (Mutual Securities) serves as the broker and record-keeper for all the transactions associated with the Trading Securities. An officer of SP Corporate and of the General Partner of Steel Partners Holdings L.P., is a registered principal of Mutual Securities. Commissions charged by Mutual Securities are generally commensurate with commissions charged by other institutional brokers, and the Company believes its use of Mutual Securities is consistent with its desire to obtain best price and execution. During the three months ended October 31, 2016, Mutual Securities received an immaterial amount in commissions associated with these transactions.

(17) FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES

ASC Topic 820 provides that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based on the highest and best use of the asset or liability. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. ASC Topic 820 requires the Company to use valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborated inputs

Level 3: Unobservable inputs for which there is little or no market data and which require the Company to develop its own assumptions about how market participants would price the assets or liabilities

Table of Contents

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, current liabilities and the revolving line of credit approximate fair value because of the short maturity 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. The fair values of the Company s Trading Securities are estimated using quoted market prices. The Company values foreign exchange forward contracts using observable inputs which primarily consist of an income approach based on the present value of the forward rate less the contract rate multiplied by the notional amount. The defined benefit plans have 100% of their assets invested in bank-managed portfolios of debt securities and other assets. Conservation of capital with some conservative growth potential is the strategy for the plans. The Company s pension plans are outside the United States, where asset allocation decisions are typically made by an independent board of trustees. Investment objectives are aligned to generate returns that will enable the plans to meet their future obligations. The Company acts in a consulting and governance role in reviewing investment strategy and providing a recommended list of investment managers for each plan, with final decisions on asset allocation and investment manager made by local trustees.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The following tables presents the Company s financial assets measured at fair value on a recurring basis as of October 31, 2016 and July 31, 2016, classified by fair value hierarchy:

		Fair Value Measurements at Reporting Date Using		
(In thousands)	**October 31, 2016**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Marketable equity securities	$ 3,225	$ 3,225	$	$
Marketable corporate bonds	11,718	11,718		
Money market funds	92,066	92,066		

		Fair Value Measurements at Reporting Date Using		
(In thousands)	**July 31, 2016**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Marketable equity securities	$ 4,209	$ 4,209	$	$
Marketable corporate bonds	12,559	12,559		
Money market funds	101,224	101,224		

There were no transfers between Levels 1, 2 or 3 during any of the periods presented.

When available, quoted prices were used to determine fair value. When quoted prices in active markets were available, investments were classified within Level 1 of the fair value hierarchy. When quoted prices in active markets were not available, fair values were determined using pricing models, and the inputs to those pricing models were based on observable market inputs. The inputs to the pricing models were typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

The Company s only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were the Company s @Ventures investments, goodwill and certain assets subject to long-lived asset impairment.

The Company reviews the carrying amounts of these assets whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company also performs an impairment evaluation of goodwill on an annual basis. An impairment loss is recognized when the carrying amount of the asset group or reporting unit is not recoverable and exceeds its fair value. The Company estimated the fair values of assets subject to impairment based on the Company s own judgments about the assumptions that market participants would use in pricing the assets and on observable market data, when available. The Company uses the income approach when determining the fair value of its reporting units.

Table of Contents

Fair Value of Financial Instruments

The Company s financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable and long-term debt and are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value for these items due to their short-term nature.

Included in trading securities in the accompanying balance sheet are marketable equity securities and marketable corporate bonds. These instruments are valued at quoted market prices in active markets. Included in cash and cash equivalents in the accompanying balance sheet are money market funds. These are valued at quoted market prices in active markets.

The following table presents the Company s debt not carried at fair value:

	October 31, 2016		July 31, 2016		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Fair Value Hierarchy
	(In thousands)				
Notes payable	$ 58,193	$ 57,093	$ 57,169	$ 50,957	Level 1

The fair value of our Notes payable represents the value at which our lenders could trade our debt within the financial markets, and 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.

Table of Contents

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 an 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, 2016. 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, through ModusLink and 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. The Supply Chain Business 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 22 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, while large in size, are mature and, as a result, gross margins in these markets tend to be lower than other markets the Company operates in. 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, among others. We believe these markets, and other verticals we operate in, may experience faster growth than our historical markets, and represent opportunities to realize higher gross margins on the services we offer. 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 value-added warehousing and distribution, repair and recovery, aftersales, returns management, financial management, entitlement management, contact center support, material planning and factory supply, and e-Business will increase the overall value of the supply chain solutions we deliver to our existing clients and to new clients.

Many of 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 financial restatement costs, strategic consulting and other related professional fees, restructuring, share-based compensation, unrealized foreign exchange gains and losses, net, other non-operating gains and losses, net, and gains and losses, and equity in gains and losses, of affiliates and impairments. 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.

Table of Contents

As a large portion of our revenue comes from outsourcing services provided to clients such as retail products 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, gross margin and overall operating performance. Additionally, the markets for our services are generally very competitive, though we believe we have a compelling and differentiated offering due to the value-added services we provide, our commitment to client management, and our global reach. 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 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. We are developing plans to address process improvements and realize other efficiencies throughout our global footprint with a goal to reduce cost, remove waste and improve our overall gross margins. There can be no assurance that these actions will improve gross margins. For the three months ended October 31, 2016 and 2015, our gross margin percentage was 7.7% and 8.8%, 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 and leveraging our global facility footprint, 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, 2016, our top ten clients collectively accounted for approximately 69% 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, and we plan to expand into new markets and over time, diversify the concentration of revenue across additional 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. By diversifying into new markets and improving the operational support structure for our clients, we expect to offset the adverse financial impact such factors may bring about.

For the three months ended October 31, 2016, the Company reported net revenue of $121.3 million, operating loss of $5.6 million, loss before income taxes of $8.0 million and net loss of $8.5 million. For the three months ended October 31, 2015, the Company reported net revenue of $141.1 million, operating loss of $1.6 million, loss before income taxes of $13.9 million and net loss of $14.8 million. At October 31, 2016, we had cash and cash equivalents of $105.3 million, and working capital of $116.0 million.

Basis of Presentation

The Company presents its financial information in accordance with accounting principles generally accepted in the United States, U.S. GAAP (or GAAP). The Company has four operating segments: Americas; Asia; Europe and

e-Business. The Company has four reportable segments: Americas; Asia; Europe; and e-Business. 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 payable 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.

Table of Contents

Results of Operations

Three months ended October 31, 2016 compared to the three months ended October 31, 2015

Net Revenue:

	Three Months Ended October 31, 2016	As a % of Total Net Revenue	Three Months Ended October 31, 2015	As a % of Total Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 25,878	21.3%	$ 33,211	23.5%	$ (7,333)	(22.1%)
Asia	42,873	35.3%	53,931	38.2%	(11,058)	(20.5%)
Europe	45,181	37.2%	44,743	31.7%	438	1.0%
e-Business	7,395	6.2%	9,204	6.6%	(1,809)	(19.7%)
Total	$ 121,327	100.0%	$ 141,089	100.0%	$ (19,762)	(14.0%)

Net revenue decreased by approximately $19.8 million during the three months ended October 31, 2016, as compared to the same period in the prior year. This change in net revenue was primarily driven by decreased revenues from two clients in the consumer electronics industries. One client s decrease in revenues for the three months ended October 31, 2016, as compared to the same period in the prior year, had a significant effect on revenues in Europe and to a larger extent in the Americas. The other client had a significant impact on revenues in Asia, as discussed below. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the quarter ended October 31, 2016 as compared to the same period in the prior year.

During the three months ended October 31, 2016, net revenue in the Americas region decreased by approximately $7.3 million. This change in net revenue was primarily driven by decreased revenues from a client in the consumer electronics market. Within the Asia region, the net revenue decrease of approximately $11.1 million primarily resulted from lower revenues from programs in the consumer electronics market. Within the Europe region, net revenue increased by approximately $0.4 million primarily due to higher revenues from clients in the consumer electronics industry, partially offset by a decrease in revenue from one client previously mentioned. Net revenue for e-Business decreased by approximately $1.8 million primarily due to lower revenues from clients in the consumer electronics industry.

During the fourth quarter of fiscal year 2014, the Company was informed by a major client in the computing market that due to a further change in the client s supply chain strategy, a number of programs previously sourced with the Company primarily in the Americas would conclude by the first quarter of fiscal year 2015. Prior to the conclusion of these programs, 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.

Cost of Revenue:

	$ Change	% Change

	Three Months Ended October 31, 2016	As a % of Segment Net Revenue	Three Months Ended October 31, 2015	As a % of Segment Net Revenue		
	(In thousands)					
Americas	$ 26,788	103.5%	$ 32,408	97.6%	$ (5,620)	(17.3%)
Asia	35,629	83.1%	45,222	83.9%	(9,593)	(21.2%)
Europe	43,257	95.7%	42,007	93.9%	1,250	3.0%
e-Business	6,320	85.5%	9,000	97.8%	(2,680)	(29.8%)
Total	$ 111,994	92.3%	$ 128,637	91.2%	$ (16,643)	(12.9%)

Table of Contents

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, shipping and applicable facilities costs. Cost of revenue for the three months ended October 31, 2016 included materials procured on behalf of our clients of $68.9 million, as compared to $81.9 million for the same period in the prior year, a decrease of $13.0 million. Total cost of revenue decreased by $16.6 million for the three months ended October 31, 2016, as compared to the three months ended October 31, 2015, primarily due to lower revenues from clients in the consumer electronics market. Gross margin percentage for the first quarter of fiscal 2017 decreased to 7.7% from 8.8% in the prior year quarter, primarily as a result of an unfavorable revenue mix, primarily associated with lower volumes for a client in the consumer electronics market, coupled with increased labor costs in the Americas and Europe. For the three months ended October 31, 2016, the Company s gross margin percentages within the Americas, Asia and Europe regions were -3.5%, 16.9% and 4.3%, as compared to 2.4%, 16.1% and 6.1%, 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, 2016.

In the Americas, the 5.9 percentage point decrease in gross margin, from 2.4% to -3.5%, resulted from an unfavorable shift in volumes for a client in the consumer electronics market and an increase in labor costs. In Asia, the 0.8 percentage point increase in gross margin, from 16.1% to 16.9%, was primarily the result of a favorable revenue mix associated with clients in the consumer electronics market. In Europe, the 1.8 percentage point decrease in gross margin, from 6.1% to 4.3%, was attributable to an unfavorable revenue mix, as well as increased labor and lease termination costs. The gross margin for e-Business was 14.5% for the three months ended October 31, 2016 as compared to 2.2% for the same period of the prior year. This increase of 12.3 percentage points was due to a favorable revenue mix primarily associated with clients in the consumer products industry.

Selling, General and Administrative Expenses:

	Three Months Ended October 31, 2016	As a % of Segment Net Revenue	Three Months Ended October 31, 2015	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 2,649	10.2%	$ 3,092	9.3%	$ (443)	(14.3%)
Asia	4,958	11.6%	5,085	9.4%	(127)	(2.5%)
Europe	3,974	8.8%	2,572	5.7%	1,402	54.5%
e-Business	704	9.5%	708	7.7%	(4)	(0.6%)
Sub-total	12,285	10.1%	11,457	8.1%	828	7.2%
Corporate-level activity	1,316		1,557		(241)	(15.5%)
Total	$ 13,601	11.2%	$ 13,014	9.2%	$ 587	4.5%

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, 2016 increased by approximately $0.6 million compared to the same period in the prior year. Included in the comparable period in prior year was a gain related to the sale of a

building in Europe of $1.2 million. Without this gain selling, general and administrative expenses would have decreased by $0.7 million. This decrease was primarily due to lower employee related costs associated with the Company s ongoing restructuring efforts and lower costs associated with outsourced services, consulting and professional fees. These decreases were partially offset by higher IT infrastructure costs and costs associated with implementing a new management team. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the quarter ended October 31, 2016.

Table of Contents

Restructuring, net:

	Three Months Ended October 31, 2016	As a % of Segment Net Revenue	Three Months Ended October 31, 2015	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 297	1.1%	$ 797	2.4%	$ (500)	(62.7%)
Asia	509	1.2%	253	0.5%	256	101.2%
Europe	541	1.2%	(43)	-0.1%	584	(1,358.1%)
e-Business	27	0.4%		0.0%	27	0.0%
Total	$ 1,374	1.1%	$ 1,007	0.7%	$ 367	36.4%

The $1.4 million restructuring charge recorded during the three months ended October 31, 2016 primarily consisted of $0.2 million, $0.4 million and $0.5 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 50 employees in our global supply chain. Of this amount, $0.3 million related to contractual obligations.

The $1.0 million restructuring charge recorded during the three months ended October 31, 2015 primarily consisted of $0.8 million and $0.3 million of employee-related costs in the Americas and Asia, respectively, related to the workforce reduction of 55 employees in our global supply chain.

Interest Income/Expense:

During the three months ended October 31, 2016 and 2015, interest income was $0.2 million and $0.1 million, respectively.

During the three months ended October 31, 2016 and 2015, interest expense was $2.0 million and $2.7 million, respectively. 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 year 2014.

Other Gains (Losses), net:

The Company recorded foreign exchange gains of approximately $0.4 million during the three months ended October 31, 2016. For the three months ended October 31, 2016, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately $0.7 million and $(0.2) million in the United States and Europe, respectively. The Company recorded foreign exchange losses of approximately $0.6 million during the three months ended October 31, 2015. For the three months ended October 31, 2015, the net gains primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately $0.6 million and $0.3 million in Asia and Europe, respectively.

During the three months ended October 31, 2016 and 2015, the Company recognized $0.9 million and $13.8 million in net non-cash losses, respectively, associated with its Trading Securities. During the three months ended October 31, 2015, the Company recognized $4.3 million in net cash gains associated with its Trading Securities. In addition to this, during the three months ended October 31, 2015, the Company recognized $0.3 in net gains associated with

short-term foreign currency contracts.

Income Tax Expense:

During the three months ended October 31, 2016, the Company recorded income tax expense of approximately $1.0 million, as compared to income tax expense of $0.9 million for the same period in the prior fiscal year. For the three months ended October 31, 2016 and 2015, 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.

Table of Contents

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, 2016, the Company had available cash and cash equivalents of $105.3 million. As of October 31, 2016, the Company had approximately $14.1 million of cash and cash equivalents held outside of the U.S. Of this amount, approximately $3.0 million is considered permanently invested due to certain restrictions under local laws, and $11.1 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, the Borrowers entered into a 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. 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. For greater clarity, if the undrawn availability, as more fully described in the Credit Agreement, is either equal to or less than $10.0 million, or the aggregate principal balance of the loans plus the undrawn amount of all letters of credit in each case outstanding on any date is equal to or greater than $30.0 million; then compliance with the minimum fixed charge coverage ratio is required. If triggered, the minimum fixed charge coverage ratio to be maintained, as of the end of each fiscal month, for the trailing period of twelve consecutive fiscal months then ended, would be not less than 1.0 to 1.0. As of October 31, 2016, the Company had $5.0 million outstanding on the PNC Bank credit facility. As of July 31, 2016, the Company did not have any balance outstanding on the PNC Bank credit facility.

On March 18, 2014, the Company entered into the Indenture with Wells Fargo Bank, National Association, as trustee, relating to the Company s issuance of $100 million of 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 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, 2016. 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. As of October 31, 2016 and July 31, 2016, the net carrying value of the Notes was $58.2 million and $57.2 million, respectively.

Consolidated working capital was $116.0 million at October 31, 2016, compared with $125.1 million at July 31, 2016. Included in working capital were cash and cash equivalents of $105.3 million at October 31, 2016 and $130.8 million at July 31, 2016.

Net cash used in operating activities was $29.8 million for the three months ended October 31, 2016, as compared to $1.7 million in the prior year period. The $28.1 million increase in net cash used in operating activities as compared with the same period in the prior year was primarily due to a high level of accounts payables in the prior year period associated with a major consumer electronics client. During the three months ended October 31, 2016, cash was negatively impacted by an increase in the balance of

Table of Contents

trade accounts receivable and an increase in the balance of net inventories. During the three months ended October 31, 2016, non-cash items within net cash used in operating activities included depreciation expense of $2.0 million, amortization of deferred financing costs of $0.2 million, accretion of debt discount of $0.9 million, share-based compensation of $0.2 million, non-cash losses, net, of $0.5 million and gains on investments in affiliates and impairments of $0.5 million. During the three months ended October 31, 2015, non-cash items within net cash used in operating activities included depreciation expense of $2.0 million, amortization of deferred financing costs of $0.1 million, accretion of debt discount of $1.2 million, share-based compensation of $0.5 million and non-cash losses, net, of $8.4 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 provided (used) cash of $(0.4) million and $26.8 million during the three months ended October 31, 2016 and 2015, respectively. The $0.4 million of cash used in investing activities during the three months ended October 31, 2016 was comprised of $1.8 million in capital expenditures and $0.9 million in proceeds from the sale of Trading Securities. The $26.8 million of cash provided by investing activities during the three months ended October 31, 2015 was comprised of $28.9 million in proceeds from the sale of Trading Securities, offset by $2.1 million in capital expenditures.

Financing activities provided cash of $4.9 million during the three months ended October 31, 2016 and primarily related to $5.0 in net proceeds and payments associated with the Company s line of credit. Financing activities used cash of $0.1 million during the three months ended October 31, 2015 and primarily related to payments on capital lease obligations.

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, Trading Securities, the PNC Credit Agreement noted above and cash, if any, provided by operating activities. In order to obtain funding for strategic initiatives, which may include capital expenditures, acquisitions, we may seek to raise additional funds through divestitures, public or private equity offerings, debt financings, or other means. In addition, as part of our strategic initiatives, our management may seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise if we believe that it is in our best interests. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

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, 2016. The Company s contractual obligations and other commercial commitments did not change materially between July 31, 2016 and October 31, 2016. The Company s gross liability for unrecognized tax benefits and related accrued interest was approximately $0.7 million as of October 31, 2016. 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, 2016, the Company had no recorded liabilities with respect to these arrangements.

Table of Contents

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 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, 2016, 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, 2016.

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

As of October 31, 2016, the Company had $5.0 million outstanding on the PNC Bank credit facility. As of July 31, 2016, the Company did not have any balance outstanding on the PNC Bank credit facility.

The Company maintains 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, 2016, the Company had $14.9 million in investments in trading securities. Had the market price of such securities been 10% lower at October 31, 2016, the aggregate value of such securities would have been $1.5 million lower.

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.

Table of Contents

During the quarter ended October 31, 2015, 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, 2016 and July 31, 2016, there were no foreign currency forward contracts outstanding. As of October 31, 2015, the aggregate notional amount of the Company s outstanding foreign currency forward contracts was $12.4 million. These contracts were 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 were 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, 2015, the Company recognized $0.3 million in net gains associated with these contracts.

Revenues from our foreign operating segments accounted for approximately 72.5% and 69.9% of total revenues during the three months ended October 31, 2016 and 2015, 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, 2016 and 2015, we recorded a foreign currency translation loss of approximately $1.3 million and $0.8 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, 2016 and 2015, we recorded net realized and unrealized foreign currency transaction and remeasurement gains (losses) of approximately $0.4 million and $(0.6) million, respectively, 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

At the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Disclosure controls and procedures means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of October 31, 2016 because of the material weaknesses in internal control over financial reporting discussed below.

Notwithstanding the material weaknesses discussed below, our management, based upon the substantive work performed during the financial reporting process has concluded that our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q are fairly stated in all material respects in accordance with accounting principles generally accepted in the U.S.

Table of Contents

Plan for Remediation of the Material Weaknesses in Internal Control Over Financial Reporting

A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement to the annual or interim financial statements will not be prevented or detected on a timely basis. In its evaluation of the effectiveness of its internal control over financial reporting as of July 31, 2016, management identified that the Company did not maintain effective internal controls over certain aspects of the financial statement close process for two of the Company s operating segments, including controls over journal entries, reconciliations and related analytical reviews, in order to timely and accurately identify, evaluate and record accounting transactions.

Management has been actively engaged in the planning for, and implementation of, remediation efforts to address the material weakness. These remediation efforts, outlined below, are intended both to address the identified material weakness and to enhance the Company s overall financial control environment related to two of the Company s operating segments.

- We are enhancing the formality and rigor of the reconciliation procedures and the evaluation of certain accounts and transactions, including access controls. We are also enhancing the design and precision level of existing monitoring controls.

- We are evaluating additional policies, improved processes and procedures relating to our financial statement close processes and procedures.

- We are hiring additional accounting personnel, making personnel changes in certain critical areas and will be providing additional training to the current personnel.

- We have engaged a nationally recognized accounting firm to provide assistance and guidance in designing, implementing and testing the Company s internal controls related to the identified material weakness.

- We have formally established work streams, and designated work stream owners, to focus on critical areas associated with the material weakness and are developing the processes for remediation and testing.

The Audit Committee has directed management to promptly develop a detailed plan and timetable for the implementation of the foregoing remedial measures (to the extent not already completed) and will monitor their implementation. In addition, under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of the Company s internal control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

Management believes the measures described above and others that will be implemented will remediate the control deficiencies the Company has identified and strengthen its internal control over financial reporting. Management is committed to continuous improvement of the Company s internal control processes and will continue to diligently review the Company s financial reporting controls and procedures. As management continues to evaluate and work to improve internal control over financial reporting, the Company may determine to take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the

remediation measures described above.

Changes in Internal Control Over Financial Reporting

Other than the changes resulting from the remediation activities described above, 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, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

O On June 8, 2015, Sean Peters, a former employee filed a complaint (the Complaint) against ModusLink Corporation in Superior Court of California asserting claims, among other things, for failure to pay wages, breach of contract, wrongful retaliation and termination, fraud, violations of California Business and Professions Code Section 17200, et seq., and civil penalties pursuant to California Labor Code Sections and pursuant to the California Private Attorney General Act, seeking over $1.0 million in damages, attorneys fees and costs and penalties. ModusLink filed an Answer to the Complaint making a general denial and asserting various affirmative defenses. The parties are currently engaged in discovery. Although there can be no assurance as to the ultimate outcome, ModusLink believes it has meritorious defenses and intends to defend the allegations vigorously.

Item 1A. Risk Factors.

There have not been any material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended July 31, 2016. In addition to the other information set forth in this report, you should carefully consider the risks and uncertainties discussed in Part I, Item 1A. Risk Factors discussed in our Annual Report, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be not material also may materially and adversely affect our business, financial condition and/or operating results.

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

None.

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.

Table of Contents

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 7, 2016

By: /S/ LOUIS J. BELARDI
Louis J. Belardi
Principal Financial Officer

and Principal Accounting Officer

Table of Contents

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, 2016 and July 31, 2016, (ii) Unaudited Condensed Consolidated Statements of Operations for the Three Months ended October 31, 2016 and 2015, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months ended October 31, 2016 and 2015 (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months ended October 31, 2016 and 2015 and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

* Filed herewith.
± Furnished herewith.