

ModusLink Global Solutions Inc
Form 10-Q
March 03, 2014

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 January 31, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 001-35319

ModusLink Global Solutions, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

1601 Trapelo Road, Suite 170

Waltham, Massachusetts
(Address of principal executive offices)
(781) 663-5000

02451
(Zip Code)

(Registrant's telephone number, including area code)

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

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

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

As of February 26, 2014, there were 51,629,593 shares issued and outstanding of the registrant's Common Stock, \$.01 par value per share.

MODUSLINK GLOBAL SOLUTIONS, INC.

FORM 10-Q

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

	January 31, 2014	July 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 75,274	\$ 77,916
Accounts receivable, trade, net of allowance for doubtful accounts of \$76 and \$64 at January 31, 2014 and July 31, 2013, respectively	145,480	142,098
Inventories	68,890	61,322
Prepaid expenses and other current assets	10,774	9,750
Total current assets	300,418	291,086
Property and equipment, net	28,911	34,290
Investments in affiliates	8,071	7,970
Goodwill	3,058	3,058
Other intangible assets, net	1,204	1,764
Other assets	5,389	5,528
Total assets	\$ 347,051	\$ 343,696
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 112,236	\$ 110,148
Accrued restructuring	1,686	4,670
Accrued expenses	37,840	34,748
Other current liabilities	25,735	26,865
Total current liabilities	177,497	176,431
Long-term portion of accrued restructuring	273	494
Other long-term liabilities	9,243	9,866
Long-term liabilities	9,516	10,360
Total liabilities	187,013	186,791
Stockholders equity:		
Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding shares at January 31, 2014 and July 31, 2013		
Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 51,607,186 issued and outstanding shares at January 31, 2014; 51,575,893 issued	516	516

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and outstanding shares at July 31, 2013		
Additional paid-in capital	7,421,070	7,419,806
Accumulated deficit	(7,275,449)	(7,277,130)
Accumulated other comprehensive income	13,901	13,713
Total stockholders' equity	160,038	156,905
Total liabilities and stockholders' equity	\$ 347,051	\$ 343,696

See accompanying notes to unaudited condensed consolidated financial statements

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

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2014	2013	2014	2013
Net revenue	\$ 194,011	\$ 203,436	\$ 385,426	\$ 400,487
Cost of revenue	171,431	183,158	340,851	361,585
Gross profit	22,580	20,278	44,575	38,902
Operating expenses				
Selling, general and administrative	19,572	23,721	37,687	47,862
Amortization of intangible assets	280	285	560	569
Impairment of long-lived assets	500		500	
Restructuring, net	993	4,798	1,972	6,268
Total operating expenses	21,345	28,804	40,719	54,699
Operating income (loss)	1,235	(8,526)	3,856	(15,797)
Other income (expense):				
Interest income	65	88	167	166
Interest expense	(199)	(101)	(412)	(199)
Other gains (losses), net	892	(978)	191	(2,299)
Impairment of investments in affiliates	(177)	(1,500)	(177)	(1,500)
Total other income (expense)	581	(2,491)	(231)	(3,832)
Income (loss) from continuing operations before income taxes	1,816	(11,017)	3,625	(19,629)
Income tax expense	753	674	1,890	1,583
Equity in losses of affiliates, net of tax		726	134	1,036
Income (loss) from continuing operations	1,063	(12,417)	1,601	(22,248)
Discontinued operations, net of income taxes:				
Income (loss) from discontinued operations	1	(133)	80	(960)
Net income (loss)	\$ 1,064	\$ (12,550)	\$ 1,681	\$ (23,208)
Basic net income (loss) per share:				
Income (loss) from continuing operations	\$ 0.02	\$ (0.29)	\$ 0.03	\$ (0.51)
Income (loss) from discontinued operations	0.00	(0.00)	0.00	(0.02)

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Net income (loss)	\$ 0.02	\$ (0.29)	\$ 0.03	\$ (0.53)
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Diluted net income (loss) per share:

Income (loss) from continuing operations	\$ 0.02	\$ (0.29)	\$ 0.03	\$ (0.51)
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Income (loss) from discontinued operations	0.00	(0.00)	0.00	(0.02)
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Net income (loss)	\$ 0.02	\$ (0.29)	\$ 0.03	\$ (0.53)
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Weighted average number of common shares used in:

Basic earnings per share	51,498	43,654	51,467	43,629
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Diluted earnings per share	51,811	43,654	51,539	43,629
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See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
Net income (loss)	\$ 1,064	\$ (12,550)	\$ 1,681	\$ (23,208)
Other comprehensive income:				
Foreign currency translation adjustment	(2,137)	1,757	(58)	5,016
Pension liability adjustments, net of tax	250		250	
Net unrealized holding gain (loss) on securities	2		(4)	(1)
	(1,885)	1,757	188	5,015
Comprehensive income (loss)	\$ (821)	\$ (10,793)	\$ 1,869	\$ (18,193)

See accompanying notes to unaudited condensed consolidated financial statements

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

(in thousands)

(unaudited)

	Six Months Ended	
	January 31,	
	2014	2013
Cash flows from operating activities of continuing operations:		
Net income (loss)	\$ 1,681	\$ (23,208)
Income (loss) from discontinued operations	80	(960)
Income (loss) from continuing operations	1,601	(22,248)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation	6,571	6,849
Amortization of intangible assets	560	569
Amortization of deferred financing costs	236	117
Impairment of long-lived assets	500	
Loss on the sale of available-for-sale securities		19
Share-based compensation	1,150	915
Non-operating (gains) losses, net	(191)	2,299
Equity in losses of affiliates and impairments	311	2,536
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(3,659)	1,622
Inventories	(7,705)	2,026
Prepaid expenses and other current assets	(1,022)	(1,138)
Accounts payable, accrued restructuring and accrued expenses	229	12,184
Refundable and accrued income taxes, net	1,923	(2,605)
Other assets and liabilities	29	619
Net cash provided by operating activities of continuing operations	533	3,764
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(1,682)	(3,570)
Change in restricted cash		(691)
Proceeds from the disposition of the TFL business, net of transaction costs of \$81		1,269
Proceeds from the sale of available-for-sale securities		96
Proceeds from the sale of equity investments in affiliates		174
Investments in affiliates	(412)	(1,450)
Net cash used in investing activities of continuing operations	(2,094)	(4,172)
Cash flows from financing activities of continuing operations:		
Repayments on capital lease obligations	(49)	(30)

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Proceeds from issuance of common stock	117	
Repurchase of common stock	(37)	(152)
Net cash provided by (used in) financing activities of continuing operations	31	(182)
Cash flows from discontinued operations:		
Operating cash flows	(579)	(1,357)
Net cash used in discontinued operations	(579)	(1,357)
Net effect of exchange rate changes on cash and cash equivalents	(533)	1,448
Net decrease in cash and cash equivalents	(2,642)	(499)
Cash and cash equivalents at beginning of period	77,916	52,369
Cash held in discontinued operations at end of the period		(80)
Cash and cash equivalents at end of period	\$ 75,274	\$ 51,790

See accompanying notes to unaudited condensed consolidated financial statements

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) NATURE OF OPERATIONS

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

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

(2) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2013, which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on October 15, 2013. The results for the three and six months ended January 31, 2014 are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

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

(3) RECENT ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU 2-13-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Exists, amending the guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. The guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented as a reduction of a deferred tax asset when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists, with certain exceptions. This accounting guidance is effective prospectively starting with our first quarter of fiscal year 2015, and is related to

presentation only. Its adoption will not have a material impact on our consolidated results of operations, financial position or cash flows.

(4) INVENTORIES

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

Inventories consisted of the following:

	January 31, 2014	July 31, 2013
	(In thousands)	
Raw materials	\$ 61,185	\$ 46,920
Work-in-process	812	1,256
Finished goods	6,893	13,146
	\$ 68,890	\$ 61,322

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

(5) INVESTMENTS IN AFFILIATES

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

During the three and six months ended January 31, 2014, approximately \$0.4 million was invested by @Ventures in privately held companies. During the three and six months ended January 31, 2013, approximately \$0.9 million and \$1.5 million was invested by @Ventures in privately held companies, respectively. During the three and six months ended January 31, 2014, the Company recorded \$0.2 million in impairment charges related to an investment in the @Ventures portfolio of companies. During the three and six months ended January 31, 2013, the Company recorded a \$1.5 million impairment charge related to an investment in the @Ventures portfolio of companies. During the three and six month periods ended January 31, 2013, the Company received distributions from its investments of \$0.2 million. The Company did not receive any distributions from its investments during the current year. At January 31, 2014 and July 31, 2013, the Company's carrying value of investments in privately held companies was approximately \$8.1 million and \$8.0 million, respectively.

Investments in which the Company's interest is less than 20% and which are not classified as available-for-sale securities are carried at the lower of cost or net realizable value (the cost method) unless it is determined that the Company exercises significant influence over the investee company, in which case the equity method of accounting is used. For those investments in which the Company's voting interest is between 20% and 50%, the equity method of accounting is generally used. Under this method, the investment balance, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the investee company as they occur, limited to the extent of the Company's investment in, advances to and commitments for the investee. These adjustments are reflected in Equity in losses of affiliates and impairments in the Company's Consolidated Statement of Operations. As of January 31, 2014

all of the investments in affiliates held by the Company are being accounted for under the cost method.

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

(6) GOODWILL

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

The Company's remaining goodwill of \$3.1 million as of January 31, 2014 and July 31, 2013 relates to the Company's e-Business reporting unit. There were no indicators of impairment identified related to the Company's e-Business reporting unit during the three and six months ended January 31, 2014.

(7) OTHER CURRENT LIABILITIES

The following table reflects the components of Other Current Liabilities:

	January 31, 2014	July 31, 2013
	(In thousands)	
Accrued pricing liabilities	\$ 20,434	\$ 20,854
Other	5,301	6,011
	\$ 25,735	\$ 26,865

As of January 31, 2014 and July 31, 2013, the Company had accrued pricing liabilities of approximately \$20.4 million and \$20.9 million, respectively. As previously reported by the Company, several principal 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 January 31, 2014 will be derecognized when there is sufficient information for the Company to conclude that such liabilities have been extinguished, which may occur through payment, legal release, or other legal or factual determination.

(8) RESTRUCTURING, NET

Restructuring and other costs for the three and six months ended January 31, 2014 primarily included continuing charges for personnel reductions and facility consolidations in an effort to streamline operations across our global supply chain operations. It is expected that the payments of employee-related charges will be substantially completed during the fiscal year ended July 31, 2014. 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 contractual obligations will be substantially fulfilled by August 2015. The \$1.0 million restructuring charge recorded during the three months ended January 31, 2014 primarily consisted of \$0.4 million, \$0.3 million and \$0.3 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 35 employees in our global supply chain operations. The \$0.9 million restructuring charge recorded during the three months ended October 31, 2013 consisted of \$0.2 million, \$0.1 million and \$0.6 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 49 employees in our global supply chain operations. The estimated savings on an annualized basis expected to result from these actions is approximately \$1.6 million.

The \$4.8 million restructuring charge recorded during the three months ended January 31, 2013 primarily consisted of approximately \$1.0 million, \$1.3 million and \$1.7 million of employee-related costs in Americas, Asia and Europe, respectively, related to the workforce reduction of 140 employees in our global supply chain operations. In addition,

the Company recorded \$0.8 million of employee-related costs related to the workforce reduction of 15 employees in e-Business.

During the first quarter of fiscal 2013, the Company recorded restructuring charges of approximately \$1.5 million, primarily consisting of \$0.3 million, \$0.7 million and \$0.5 million of employee-related costs in Americas, Asia and Europe, respectively, related to the workforce reduction of 62 employees in our global supply chain operations.

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

	Employee Related Expenses	Contractual Obligations (In thousands)	Total
Accrued restructuring balance at July 31, 2013	\$ 3,974	\$ 1,190	\$ 5,164
Restructuring charges	1,600	294	1,894
Restructuring adjustments	91	(13)	78
Cash paid	(4,726)	(552)	(5,278)
Non-cash adjustments	36	65	101
Accrued restructuring balance at January 31, 2014	\$ 975	\$ 984	\$ 1,959

	Americas	Asia	Europe (In thousands)	All Other	Consolidated Total
Accrued restructuring balance at July 31, 2013	\$ 382	\$ 520	\$ 4,256	\$ 6	\$ 5,164
Restructuring charges	643	429	792	30	1,894
Restructuring adjustments	(46)	(4)	128	78	78
Cash paid	(387)	(727)	(4,134)	(30)	(5,278)
Non-cash adjustments	3	5	93	101	101
Accrued restructuring balance at January 31, 2014	\$ 595	\$ 223	\$ 1,135	\$ 6	\$ 1,959

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(In thousands)			
Cost of revenue	\$ 693	\$ 3,529	\$ 1,373	\$ 4,298
Selling, general and administrative	300	1,269	599	1,970
	\$ 993	\$ 4,798	\$ 1,972	\$ 6,268

(9) CONTINGENCIES

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

On June 11, 2012, we announced the pending restatement of the Company's financial statements for the periods ending on or before January 31, 2012 (the June 11, 2012 Announcement), related to the Company's accounting treatment of rebates associated with volume discounts provided by vendors. The restated financial statements were filed on January 11, 2013. After the June 11, 2012 Announcement, stockholders of the Company commenced three purported class actions in the United States District Court for the District of Massachusetts arising from the circumstances described in the June 11, 2012 Announcement (the Securities Actions), entitled, respectively:

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

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

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

Each of the Securities Actions purports to be brought on behalf of those persons who purchased shares of the Company between September 26, 2007 through and including June 8, 2012 (the Class Period) and alleges that failure to timely disclose the issues raised in the June 11, 2012 Announcement during the Class Period rendered defendants public statements concerning the Company s financial condition materially false and misleading in violation of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder. On February 11, 2013, plaintiffs filed a consolidated amended complaint in the Securities Actions. The Company moved to dismiss the amended complaint on March 11, 2013. On November 8, 2013, the Court held a hearing on the Company s motion, but it has not yet issued a decision.

On July 13, 2012, a fourth stockholder commenced a purported derivative action in United States District Court for the District of Massachusetts against the Company (as nominal defendants), and certain of its current and former directors and officers, entitled, *Samuel Montini, Derivatively On Behalf Of ModusLink Global Solutions, Inc. v. Joseph C. Lawler, Steven G. Crane, Francis J. Jules, Virginia G. Breen, Michael J. Mardy, Edward E. Lucente, Jeffrey J. Fenton, Joseph M. O Donnell, William R. McLennan, Thomas H. Johnson, And Anthony J. Bay, Defendants, And ModusLink Global Solutions, Inc., A Delaware Corporation, Nominal Defendant* , Case 1:12-CV-11296-DJC and on July 31, 2012, a fifth stockholder commenced a purported derivative action in United States District Court for the District of Massachusetts against the Company (as nominal defendants), and certain of its current and former directors and officers, entitled, *Edward Tansey, Derivatively On Behalf Of ModusLink Global Solutions, Inc. v. Joseph C. Lawler, Steven G. Crane, Francis J. Jules, Virginia G. Breen, Michael J. Mardy, Edward E. Lucente, Jeffrey J. Fenton, Joseph M. O Donnell, William R. McLennan, Thomas H. Johnson, And Anthony J. Bay, Defendants, And ModusLink Global Solutions, Inc., A Delaware Corporation, Nominal Defendant*, Civil Action No. 12-CV-11399 (DJC) (collectively, the Derivative Actions). The Derivative Actions further assert that as a result of the individual defendants alleged actions and course of conduct, the Company is now the subject of the Securities Actions and will incur related expenses and a possible judgment against it. These litigation matters also arise from the issues raised in the June 11, 2012 Announcement and allege that the individual defendants breached their duty of loyalty to the Company by allowing defendants to cause, or by themselves causing, the Company to make improper statements regarding its business prospects and/or by failing to prevent the other Individual Defendants from taking such purportedly illegal actions. The plaintiffs filed a consolidated amended complaint in the Derivative Actions on March 4, 2013, and the Company moved to dismiss the Amended Complaint on April 4, 2013. On November 8, 2013, the Court held a hearing on the Company s motion, but it has not yet issued a decision.

On October 10, 2012, a sixth stockholder, Donald Reith, served upon the Company s Board of Directors a demand to institute litigation and take other purportedly necessary, but unidentified, remedial measures to redress and prevent a recurrence of purported breaches of fiduciary duties on the part of the Board and unspecified corporate officers allegedly arising from the same facts and circumstances asserted in the Derivative Actions. On February 4, 2013, the Company s Board of Directors voted unanimously to reject Mr. Reith s demand.

Because the SEC has not asserted any formal claims, and because, with respect to the pending litigation, there has been no decision by the Court with regard to the sufficiency of the complaint(s) and no discovery has been conducted, we are unable at this time to provide a calculation of potential damages or litigation loss that is probable or estimable. Although there can be no assurance as to the ultimate outcome, the Company believes it has meritorious defenses, will deny liability, and intends to defend this litigation vigorously.

(10) OTHER GAINS (LOSSES), NET

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Foreign currency exchange gain (losses)	\$ 1,002	\$ (1,034)	\$ (170)	\$ (2,060)
Gain (loss) on disposal of assets	161	(58)	467	(62)
Other, net	(271)	114	(106)	(177)
	\$ 892	\$ (978)	\$ 191	\$ (2,299)

The Company recorded foreign exchange gains of approximately \$1.0 million during the three months ended January 31, 2014, as compared to foreign exchange losses of approximately \$1.0 million during the three months ended January 31, 2013. For the three months ended January 31, 2014, the net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately \$0.2 million and \$1.0 million in the Americas and Europe, respectively. For the three months ended January 31, 2013, the net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$0.6 million and \$1.0 million in Asia and Europe, respectively, offset by realized and unrealized gains of approximately \$0.6 million in the Americas.

The Company recorded foreign exchange losses of approximately \$0.2 million and \$2.1 million during the six months ended January 31, 2014 and 2013, respectively. For the six months ended January 31, 2014, the net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$0.5 million in Asia, offset by realized and unrealized gains of approximately \$0.2 million and \$0.3 million in the Americas and Europe, respectively. For the six months ended January 31, 2013, the net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$1.1 million and \$1.5 million in Asia and Europe, respectively, offset by realized and unrealized gains of approximately \$0.6 million in the Americas.

(11) INCOME TAXES

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the three and six months ended January 31, 2014, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of January 31, 2014 and July 31, 2013, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$2.0 million and \$1.0 million, respectively.

Uncertain Tax Positions

In accordance with the Company's accounting policy, interest related to unrecognized tax benefits is included in the provision of income taxes line of the Consolidated Statement of Operations. As of January 31, 2014 and July 31, 2013, 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, 2009 through July 31, 2013. To the extent the Company has tax attribute carryforwards, the tax year in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period. In addition, a number of tax years remain subject to examination by the appropriate government agencies for certain countries in the Europe and Asia regions. In Europe, the Company's 2006 through 2013 tax years remain subject to examination in most locations, while the Company's 2002 through 2013 tax years remain subject to examination in most Asia locations.

Net Operating Loss

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

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.

(12) EARNINGS (LOSS) PER SHARE

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2014	2013	2014	2013
	(In thousands)			
Income (loss) from continuing operations	\$ 1,063	\$ (12,417)	\$ 1,601	\$ (22,248)
Income (loss) from discontinued operations	1	(133)	80	(960)
Net income (loss)	\$ 1,064	\$ (12,550)	\$ 1,681	\$ (23,208)
Weighted average common shares outstanding	51,498	43,654	51,467	43,629
Weighted average common equivalent shares arising from dilutive stock options and restrictive stock	313		72	
Weighted average number of common and potential common shares	51,811	43,654	51,539	43,629
Basic net income (loss) per common share from:				
Continuing operations	\$ 0.02	\$ (0.29)	\$ 0.03	\$ (0.51)
Discontinued operations	0.00	(0.00)	0.00	(0.02)
	\$ 0.02	\$ (0.29)	\$ 0.03	\$ (0.53)
Diluted net income (loss) per common share from:				
Continuing operations	\$ 0.02	\$ (0.29)	\$ 0.03	\$ (0.51)
Discontinued operations	0.00	(0.00)	0.00	(0.02)
	\$ 0.02	\$ (0.29)	\$ 0.03	\$ (0.53)

For the three and six months ended January 31, 2014, approximately 3.6 million and 5.5 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.

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For the three and six months ended January 31, 2013, approximately 2.2 million and 2.3 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.

(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 and six months ended January 31, 2014 and 2013, which was allocated as follows:

	Three Months Ended		Six Months Ended	
	January 31, 2014	2013	January 31, 2014	2013
	(In thousands)			
Cost of revenue	\$ 117	\$ 61	\$ 233	\$ 111
Selling, general and administrative	521	361	917	804
	\$ 638	\$ 422	\$ 1,150	\$ 915

At January 31, 2014, there was approximately \$4.3 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 shareholder's equity in the accompanying condensed consolidated balance sheets.

Accumulated other comprehensive items consist of the following:

	Foreign currency items	Pension items	Unrealized gains (losses) on securities	Total
	(In thousands)			
Accumulated other comprehensive income at July 31, 2013	\$ 15,759	\$ (2,066)	\$ 20	\$ 13,713
Foreign currency translation adjustment	(58)			(58)
Net unrealized holding gain on securities			(4)	(4)
Pension liability adjustments, net of tax		250		250
Net current-period other comprehensive income	(58)	250	(4)	188
Accumulated other comprehensive income at January 31, 2014	\$ 15,701	\$ (1,816)	\$ 16	\$ 13,901

(15) DISCONTINUED OPERATIONS AND DIVESTITURES

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

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

(16) SEGMENT INFORMATION

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

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

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2014	2013	2014	2013
	(In thousands)			
Net revenue:				
Americas	\$ 78,787	\$ 67,731	\$ 155,362	\$ 131,641
Asia	47,530	60,356	92,920	116,731
Europe	56,751	67,818	117,367	136,748
All Other	10,943	7,531	19,777	15,367
	\$ 194,011	\$ 203,436	\$ 385,426	\$ 400,487
Operating income (loss):				
Americas	\$ 2,080	\$ (446)	\$ 5,568	\$ (2,470)
Asia	5,808	5,585	11,659	12,754
Europe	(2,149)	(3,900)	(4,495)	(7,748)
All Other	(76)	(955)	509	(538)
Total Segment operating income	5,663	284	13,241	1,998
Corporate-level activity	(4,428)	(8,810)	(9,385)	(17,795)
Total operating income (loss)	1,235	(8,526)	3,856	(15,797)
Total other income (expense)	581	(2,491)	(231)	(3,832)
Income (loss) from continuing operations before income taxes	\$ 1,816	\$ (11,017)	\$ 3,625	\$ (19,629)

January 31,
2014

July 31,
2013

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	(In thousands)	
Total assets:		
Americas	\$ 77,637	\$ 65,790
Asia	85,485	93,547
Europe	100,992	97,524
All Other	19,529	17,369
Sub-total - segment assets	283,643	274,230
Corporate	63,408	69,466
	\$ 347,051	\$ 343,696

As of January 31, 2014, approximately 56%, 18 % and 26 % of the Company's long-lived assets were located in the Americas, Asia and Europe, respectively. As of July 31, 2013, approximately 58%, 18% and 24% of the Company's long-lived assets were located in the Americas, Asia and Europe, respectively.

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

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

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended that involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed in Part II Item 1A below and elsewhere in this report and the risks discussed in the Company's Annual Report on Form 10-K filed with the SEC on October 15, 2013. 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.

Overview

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

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

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

Our clients' products are subject to seasonal consumer buying patterns. As a result, the services we provide to our clients are also subject to seasonality, with higher revenue and operating income typically being realized from handling our clients' products during the first half of our fiscal year, which includes the holiday selling season.

Management evaluates operating performance based on net revenue, operating income (loss) and net income (loss) and a measure that we refer to as adjusted EBITDA, defined as net income (loss) excluding net charges related to interest income, interest expense, income tax expense, depreciation, amortization of intangible assets, SEC inquiry and restatement costs, strategic alternatives and other professional fees, executive severance and employee retention,

restructuring, share-based compensation, impairment of goodwill and long-lived assets, other non-operating gains and losses, equity in losses of affiliates and discontinued operations. Among the key factors that will influence our performance are successful execution and implementation of our strategic initiatives, global economic conditions, especially in the technology sector, which comprises a predominant proportion of our business, demand for our clients products, the effect of product form factor changes, technology changes, revenue mix and demand for outsourcing services.

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

results. Also, form factor changes, which we describe as the reduction in the amount of materials and product components used in our clients' completed packaged product, can also have the effect of reducing our revenue and gross margin opportunities. As a result of these competitive and client pressures the gross margins in our business are low. For both the three and six-month periods ended January 31, 2014, our gross margin percentage was 11.6% as compared to 10.0% and 9.7% for the three and six-month periods ended January 31, 2013. Increased competition as well as industry consolidation and/or low demand for our clients' products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We generally manage margin and pricing pressures in several ways, including efforts to target new markets, expand our service offerings, improve the efficiency of our processes and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, consolidating facilities, and other actions designed to improve the productivity of our operations.

Historically, a limited number of key clients have accounted for a significant percentage of our revenue. For the three months ended January 31, 2014, sales to Hewlett-Packard accounted for approximately 28% of our net revenue while our top ten clients collectively accounted for approximately 81% of our net revenue. For the six months ended January 31, 2013, sales to Hewlett-Packard accounted for approximately 29% of our net revenue while our top ten clients collectively accounted for approximately 80% of our net revenue. We expect to continue to derive the vast majority of our revenue from sales to a small number of key clients. In general, we do not have any agreements which obligate any client to buy a minimum amount of services from us or designate us as an exclusive service provider. Consequently, our net revenue is subject to demand variability by our clients. The level and timing of orders placed by our clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions.

For the three months ended January 31, 2014, the Company reported net revenue of \$194.0 million, operating income of \$1.2 million, income from continuing operations before income taxes of \$1.8 million and net income of \$1.1 million. For the six months ended January 31, 2014, the Company reported net revenue of \$385.4 million, operating income of \$3.9 million, income from continuing operations before income taxes of \$3.6 million and net income of \$1.7 million. For the three months ended January 31, 2013, the Company reported net revenue of \$203.4 million, an operating loss of \$8.5 million, loss from continuing operations before income taxes of \$11.0 million and a net income of \$12.6 million. For the six months ended January 31, 2013, the Company reported net revenue of \$400.5 million, an operating loss of \$15.8 million, a loss from continuing operations before income taxes of \$19.6 million and a net loss of \$23.2 million. At January 31, 2014, we had cash and cash equivalents of \$75.3 million, and working capital of \$122.9 million.

Basis of Presentation

The Company has five operating segments: Americas; Asia; Europe; e-Business and ModusLink PTS. The Company has three reportable segments: Americas; Asia; and Europe. The Company reports the ModusLink PTS operating segment in aggregation with the Americas operating segment as part of the Americas reportable segment. In addition to its three reportable segments, the Company reports an All Other category. The All Other category represents primarily the e-Business operating segment. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal and finance which are not allocated to the Company's reportable segments, and administration costs related to the Company's venture capital activities.

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

Results of Operations

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

Net Revenue:

	Three Months Ended January 31, 2014	As a % of Total Net Revenue	Three Months Ended January 31, 2013	As a % of Total Net Revenue	\$ Change	% Change
(In thousands)						
Americas	\$ 78,787	40.6%	\$ 67,731	33.3%	\$ 11,056	16.3%
Asia	47,530	24.5%	60,356	29.7%	(12,826)	(21.3%)
Europe	56,751	29.3%	67,818	33.3%	(11,067)	(16.3%)
All Other	10,943	5.6%	7,531	3.7%	3,412	45.3%
Total	\$ 194,011	100.0%	\$ 203,436	100.0%	\$ (9,425)	(4.6%)

Net revenue decreased by approximately \$9.4 million during the three months ended January 31, 2014, as compared to the same period in the prior year. This decrease was primarily a result of lower volumes from a significant software client that has reorganized its supply chain, partially offset by increased volumes from other clients. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the quarter ended January 31, 2014. Revenue from new programs, which the Company defines as client programs that have been executed for fewer than 12 months, was \$12.6 million during the second quarter of fiscal 2014, as compared to \$30.5 million in the second quarter of fiscal 2013. The decline in revenue from new programs was primarily due to a large consumer products program that has been generating revenue for more than 12 months and is now being categorized as base business, defined as client programs that have been executed for 12 months or more. Revenue from new programs in the second quarter of fiscal 2014 benefited from a particular consumer electronics client, which commenced several new programs in recent quarters.

During the second quarter of fiscal year 2014, a major client in the computing market notified us of an intended change in their sourcing strategy effective during our third fiscal quarter for one of their supply chain programs in Asia for which we are currently the primary service provider. While we have been notified that the client intends to add an additional service provider to this program, we expect to continue to be the primary service provider. We expect this change in sourcing strategy to result in reduced annualized net revenue of approximately \$15 million to \$20 million, and to have a greater proportionate impact on operating income consistent with the historical margins realized from this type of service program. Although there can be no assurances, we are and will continue to seek to offset this loss of net revenue and associated operating income through increased revenues from other clients, new business opportunities, increases in productivity and ongoing cost reduction initiatives.

During the three months ended January 31, 2014, net revenue in the Americas region increased by approximately \$11.1 million. This increase resulted primarily from higher order volumes from a program for a consumer electronics client and higher revenue from an aftermarket services program related to the repair and refurbishment of mobile devices. Within the Asia region, the net revenue decrease of approximately \$12.8 million primarily resulted from lower order volumes from certain clients related to the software and personal computer markets. Within the Europe region, net revenue decreased by approximately \$11.1 million primarily due to lower volumes from a significant

software client that has reorganized its supply chain. Net revenue for All Other increased by approximately \$3.4 million primarily due to higher revenue from a consumer electronics client.

Cost of Revenue:

	Three Months Ended January 31,	As a % of Segment Net Revenue	Three Months Ended January 31,	As a % of Segment Net Revenue	\$ Change	% Change
	2014		2013			
	(In thousands)					
Americas	\$ 72,947	92.6%	\$ 63,545	93.8%	\$ 9,402	14.8%
Asia	35,271	74.2%	47,784	79.2%	(12,513)	(26.2%)
Europe	53,162	93.7%	65,052	95.9%	(11,890)	(18.3%)
All Other	10,051	91.8%	6,777	90.0%	3,274	48.3%
Total	\$ 171,431	88.4%	\$ 183,158	90.0%	\$ (11,727)	(6.4%)

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services as well as costs for salaries and benefits, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the three months ended January 31, 2014 included materials procured on behalf of our clients of \$115.3 million, or 59.4% of consolidated net revenue, as compared to \$123.7 million or 60.8% of consolidated net revenue for the same period in the prior year, a decrease of \$8.4 million. Total cost of revenue decreased by \$11.7 million for the three months

ended January 31, 2014, as compared to the three months ended January 31, 2013, due to the decline in revenue as well as to cost reduction programs implemented by the Company. Gross margin for the second quarter of fiscal 2014 increased to 11.6% from 10.0% in the prior year quarter, primarily as a result of cost reduction actions taken by the Company. For the three months ended January 31, 2014, the Company's gross margin percentages within the Americas, Asia and Europe regions were 7.4%, 25.8% and 6.3%, as compared to 6.2%, 20.8% and 4.1%, 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 January 31, 2014.

In the Americas, the 1.2 percentage point increase in gross margin, from 6.2% to 7.4%, resulted from the favorable impact of cost reductions at certain facilities, partly offset by an unfavorable shift in client mix. In Asia, the 5.0 percentage point increase in gross margin, from 20.8% to 25.8%, was primarily the result of a favorable client mix. This was offset by cost reductions in Asia that were not enough to offset the impact on gross margin of lower net revenues. In Europe, the 2.1 percentage point improvement in gross margin, from 4.1% to 6.3%, was attributable to a favorable client mix as well as the impact of cost reductions at certain facilities. The gross margin for All other, which is comprised primarily of e-Business, was 8.2% for the three months ended January 31, 2014 as compared to 10.0% for the same period of the prior year. This decrease of 1.8 percentage points represents a higher proportion of materials costs due to the addition of a consumer electronics fulfillment program with higher relative materials cost, that was partly offset by labor and overhead costs that did not increase in proportion to net revenues.

Selling, General and Administrative Expenses:

	As a %		As a %			
	Three Months Ended January 31, 2014	of Segment Net Revenue	Three Months Ended January 31, 2013	of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 3,292	4.2%	\$ 3,554	5.2%	\$ (262)	(7.4%)
Asia	6,148	12.9%	5,733	9.5%	415	7.2%
Europe	5,005	8.8%	4,989	7.4%	16	0.3%
All Other	699	6.4%	635	8.4%	64	10.1%
Sub-total	15,144	7.8%	14,911	7.3%	233	1.6%
Corporate-level activity	4,428		8,810		(4,382)	(49.7%)
Total	\$ 19,572	10.1%	\$ 23,721	11.7%	\$ (4,149)	(17.5%)

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 January 31, 2014 decreased by approximately \$4.2 million compared to the three-month period ended January 31, 2013, primarily as a result of reduced employee-related costs (\$0.4 million) and professional fees (\$3.8 million), including audit fees and various costs related to the financial restatement. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the quarter ended January 31, 2014.

Amortization of Intangible Assets:

	As a % Three Months Ended January 31, 2014	of Segment Net Revenue	Three Months Ended January 31, 2013	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 38	0.0%	\$ 38	0.1%	\$	0.0%
All Other	242	2.2%	247	3.3%	(5)	(2.0%)
Total	\$ 280	0.1%	\$ 285	0.1%	\$ (5)	(1.8%)

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisition of ModusLink OCS and ModusLink PTS. The remaining intangible assets are being amortized over lives ranging from 1 to 4 years.

Impairment of Long-lived Assets:

During the three month period ended January 31, 2014 the Company determined that the carrying value of an owned facility was not fully recoverable from future cash flows. The Company recorded an impairment charge of \$0.5 million to adjust the carrying value to its estimated fair value.

Restructuring, net:

	Three Months Ended January 31, 2014	As a % of Segment Net Revenue	Three Months Ended January 31, 2013	As a % of Segment Net Revenue	\$ Change	% Change
(In thousands)						
Americas	\$ 430	0.5%	\$ 1,040	1.5%	\$ (610)	(58.7%)
Asia	303	0.6%	1,254	2.1%	(951)	(75.8%)
Europe	233	0.4%	1,677	2.5%	(1,444)	(86.1%)
All Other	27	0.2%	827	11.0%	(800)	(96.7%)
Total	\$ 993	0.5%	\$ 4,798	2.4%	\$ (3,805)	(79.3%)

The \$1.0 million restructuring charge recorded during the three months ended January 31, 2014 primarily consisted of approximately \$0.4 million, \$0.3 million and \$0.3 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 35 employees in our global supply chain operations. The estimated savings on an annualized basis expected to result from these actions is approximately \$0.6 million.

The \$4.8 million restructuring charge recorded during the three months ended January 31, 2013 primarily consisted of approximately \$1.0 million, \$1.3 million and \$1.7 million of employee-related costs in Americas, Asia and Europe, respectively, related to the workforce reduction of 140 employees in our global supply chain operations. In addition, the Company recorded \$0.8 million of employee-related costs related to the workforce reduction of 15 employees in e-Business.

Interest Income/Expense:

During the three months ended January 31, 2014 and 2013, interest income was \$0.1 million in each period.

During the three months ended January 31, 2014 and 2013, interest expense totaled approximately \$0.2 million and \$0.1 million, respectively. In both periods, interest expense related primarily to the Company's stadium obligation. In August 2000, the Company announced it had acquired the exclusive naming and sponsorship rights to the New England Patriots' new stadium, for a period of fifteen years. In August 2002, the Company finalized an agreement with the owner of the stadium to amend the sponsorship agreement. Under the terms of the amended agreement, the Company relinquished the stadium naming rights and remains obligated for a series of annual payments of \$1.6 million per year through 2015.

Other Gains (Losses), net:

Other gains (losses), net consists primarily of net realized and unrealized foreign exchange gains and losses and also includes other items such as amortization of deferred costs associated with our credit facility and other gain and losses. The Company recorded foreign exchange gains of approximately \$1.0 million during the three months ended January 31, 2014. These net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately \$0.2 million and \$1.0 million in the Americas and Europe, respectively.

The Company recorded foreign exchange losses of approximately \$1.0 million during the three months ended January 31, 2013. These net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$0.6 million and \$1.0 million in Asia and Europe, respectively, offset by realized and unrealized gains of approximately \$0.6 million in the Americas.

Impairment of Investments in Affiliates:

During the three months ended January 31, 2014 and 2013, the Company recorded \$0.2 million and \$1.5 million, respectively, of impairment charges related to certain investments in the @Ventures portfolio of companies. The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular investment's net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee's cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes and competition. The valuation process is based primarily on information that the Company requests from these privately held companies which are not subject to the same disclosure and audit requirements as those of U.S. public companies. As such, the reliability and the accuracy of the data may vary.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to volatility in our reported results of operations in the past and may negatively impact our results of operations in the future. We may incur impairment charges to our investments in privately held companies, which could have an adverse impact on our future results of operations. A decline in the carrying value of our \$8.1 million of investments in affiliates at January 31, 2014 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by \$0.8 million to \$1.6 million.

Income Tax Expense:

During the three months ended January 31, 2014, the Company recorded income tax expense of approximately \$0.8 million, as compared to income tax expense of \$0.7 million for same period in the prior fiscal year. For the three months ended January 31, 2014 and 2013, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions.

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

Equity in Losses of Affiliates:

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

affiliates.

During the three months ended January 31, 2014 there were no equity gains or losses in affiliates recorded as all investments were being accounted for under the cost method. Equity in losses of affiliates was \$0.7 million for the three months ended January 31, 2013. During the three months ended January 31, 2013, @Ventures received a distribution from one of its investments in the amount of \$0.2 million. No distributions were received during the three months ended January 31, 2014.

Results of Operations

Six months ended January 31, 2014 compared to the six months ended January 31, 2013

Net Revenue:

	Six Months Ended January 31, 2014	As a % of Total Net Revenue	Six Months Ended January 31, 2013	As a % of Total Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 155,362	40.3%	\$ 131,641	32.9%	\$ 23,721	18.0%
Asia	92,920	24.1%	116,731	29.1%	(23,811)	(20.4%)
Europe	117,367	30.5%	136,748	34.1%	(19,381)	(14.2%)
All Other	19,777	5.1%	15,367	3.8%	4,410	28.7%
Total	\$ 385,426	100.0%	\$ 400,487	99.9%	\$ (15,061)	(3.8%)

Net revenue decreased by approximately \$15.1 million during the six months ended January 31, 2014, as compared to the same period in the prior year. This decrease was primarily a result of lower volumes from a significant software client that has reorganized its supply chain partially offset by increased volumes from certain client programs. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the six months ended January 31, 2014. Revenue from new programs, which the Company defines as client programs that have been executed for fewer than 12 months, was \$26.5 million during the six months ended January 31, 2014, as compared to \$55.0 million during the six months ended January 31, 2013. The decline in revenue from new programs was primarily due to a large consumer products program that has been generating revenue for more than 12 months and is now being categorized as base business, defined as client programs that have been executed for 12 months or more.

During the second quarter of fiscal year 2014, a major client in the computing market notified us of an intended change in their sourcing strategy effective during our third fiscal quarter for one of their supply chain programs in Asia for which we are currently the primary service provider. While we have been notified that the client intends to add an additional service provider to this program, we expect to continue to be the primary service provider. We expect this change in sourcing strategy to result in reduced annualized net revenue of approximately \$15 million to \$20 million, and to have a greater proportionate impact on operating income consistent with the historical margins realized from this type of service program. Although there can be no assurances, we are and will continue to seek to offset this loss of net revenue and associated operating income through increased revenues from other clients, new business opportunities, increases in productivity and ongoing cost reduction initiatives.

During the six months ended January 31, 2014, net revenue in the Americas region increased by approximately \$23.7 million. This increase resulted primarily from higher order volumes from a program for a consumer electronics client and higher revenue from an aftermarket services program related to the repair and refurbishment of mobile devices. Within the Asia region, the net revenue decrease of approximately \$23.8 million primarily resulted from lower order volumes from certain clients related to the software and personal computer markets. Within the Europe region, net revenue decreased by approximately \$19.4 million primarily due to lower volumes from a significant software client

that has reorganized its supply chain. Net revenue for All Other increased by approximately \$4.4 million primarily due to higher revenue from a consumer electronics client.

Cost of Revenue:

	Six Months Ended January 31, 2014	As a % of Segment Net Revenue	Six Months Ended January 31, 2013 (In thousands)	As a % of Segment Net Revenue	\$ Change	% Change
Americas	\$ 142,643	91.8%	\$ 125,386	95.2%	\$ 17,257	13.8%
Asia	69,706	75.0%	90,715	77.7%	(21,009)	(23.2%)
Europe	111,002	94.6%	132,307	96.8%	(21,305)	(16.1%)
All Other	17,500	88.5%	13,177	85.7%	4,323	32.8%
Total	\$ 340,851	88.4%	\$ 361,585	90.3%	\$ (20,734)	(5.7%)

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services as well as costs for salaries and benefits, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the six months ended January 31, 2014 included materials procured on behalf of our clients of \$228.9 million, or 59.4% of consolidated net revenue, as compared to \$243.8 million or 60.9% of consolidated net revenue

for the same period in the prior year, a decrease of \$14.9 million. Total cost of revenue decreased by \$20.7 million for the six months ended January 31, 2014, as compared to the six months ended January 31, 2013. Gross margin increased to 11.6% for the six months ended January 31, 2014, from 9.7% for the six months ended January 31, 2013, primarily as a result of cost reduction actions taken by the Company. For the six months ended January 31, 2014, the Company's gross margin percentages within the Americas, Asia and Europe regions were 8.2%, 25.0% and 5.4%, as compared to 4.8%, 22.3% and 3.2%, respectively, for the same period of the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on gross margin for the six months ended January 31, 2014.

In the Americas, the 3.4 percentage point increase in gross margin, from 4.8% to 8.2%, resulted from the favorable impact of cost reductions at certain facilities, partly offset by an unfavorable shift in client mix. In Asia, the 2.7 percentage point increase, from 22.3% to 25.0% was primarily the result of a favorable client mix as well cost reductions, offset in part by the impact of lower revenues. In Europe, the 2.2 percentage point improvement in gross margin, from 3.2% to 5.4%, was attributable to a favorable client mix as well as the impact of cost reductions at certain facilities. The gross margin for All other, which is comprised primarily of e-Business, was 11.5% for the six months ended January 31, 2014 as compared to 14.3% for the same period of the prior year. This decrease of 2.8 percentage points represents a higher proportion of materials costs due to the addition of a the addition of a consumer electronics fulfillment program with higher relative materials cost that was partly offset by labor and overhead costs that did not increase in proportion to revenues.

Selling, General and Administrative Expenses:

	Six Months Ended January 31, 2014	As a % of Segment Net Revenue	Six Months Ended January 31, 2013	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 6,478	4.2%	\$ 7,284	5.5%	\$ (806)	(11.1%)
Asia	11,130	12.0%	11,344	9.7%	(214)	(1.9%)
Europe	9,440	8.0%	10,058	7.3%	(618)	(6.1%)
All Other	1,254	6.3%	1,381	9.1%	(127)	(9.2%)
Sub-total	28,302	7.3%	30,067	7.5%	(1,765)	(5.9%)
Corporate-level activity	9,385		17,795		(8,410)	(47.3%)
Total	\$ 37,687	9.8%	\$ 47,862	12.0%	\$ (10,175)	(21.3%)

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense and marketing expenses. Selling, general and administrative expenses during the six months ended January 31, 2014 decreased by approximately \$10.2 million compared to the six-month period ended January 31, 2013, primarily as a result of reduced employee-related costs (\$1.7 million) and professional fees, (\$8.4 million) including audit fees and various costs related to the financial restatement. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the six months ended January 31, 2014.

Amortization of Intangible Assets:

	Six Months Ended January 31, 2014	As a % of Segment Net Revenue	Six Months Ended January 31, 2013	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 76	0.0%	\$ 75	0.1%	\$ 1	0.0%
All Other	484	2.4%	494	3.2%	(10)	(2.0%)
Total	\$ 560	0.1%	\$ 569	0.1%	\$ (9)	(1.6%)

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisition of ModusLink OCS and ModusLink PTS. The remaining intangible assets are being amortized over lives ranging from 1 to 4 years.

Impairment of Long-lived Assets:

During the six-month period ended January 31, 2014 the Company determined that the carrying value of an owned facility was not fully recoverable from future cash flows. The Company recorded an impairment charge of \$0.5 million to adjust the carrying value to its estimated fair value.

Restructuring, net:

	Six Months Ended January 31, 2014	As a % of Segment Net Revenue	Six Months Ended January 31, 2013	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 597	0.4%	\$ 1,366	1.0%	\$ (769)	(56.3%)
Asia	425	0.5%	1,918	1.6%	(1,493)	(77.8%)
Europe	920	0.8%	2,131	1.6%	(1,211)	(56.8%)
All Other	30	0.2%	853	5.6%	(823)	(96.5%)
Total	\$ 1,972	0.5%	\$ 6,268	1.6%	\$ (4,296)	(68.5%)

The \$2.0 million restructuring charge recorded during the six months ended January 31, 2014 primarily consisted of approximately \$0.6 million \$0.4 million, and \$0.8 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 84 employees in our global supply chain operations. The estimated savings on an annualized basis expected to result from these actions is approximately \$1.6 million.

The \$6.3 million restructuring charge recorded during the six months ended January 31, 2013 primarily consisted of approximately \$1.4 million, \$1.9 million, and \$2.1 million of employee-related costs in Americas, Asia, and Europe, respectively, related to the workforce reduction of 202 employees in our global supply chain operations. In addition, the Company recorded \$0.8 million of employee-related costs related to the workforce reduction of 15 employees in e-Business.

Interest Income/Expense:

During the six months ended January 31, 2014 and 2013, interest income was \$0.2 million in each period.

During the six months ended January 31, 2014 and 2013, interest expense totaled approximately \$0.4 million and \$0.2 million, respectively. In both periods, interest expense related primarily to the Company's stadium obligation. In August 2000, the Company announced it had acquired the exclusive naming and sponsorship rights to the New England Patriots' new stadium, for a period of fifteen years. In August 2002, the Company finalized an agreement with the owner of the stadium to amend the sponsorship agreement. Under the terms of the amended agreement, the Company relinquished the stadium naming rights and remains obligated for a series of annual payments of \$1.6 million per year through 2015.

Other Gains (Losses), net:

Other gains (losses), net consists primarily of net realized and unrealized foreign exchange gains and losses and also includes other items such as amortization of deferred costs associated with our credit facility and other gain and losses. The six-month period ended January 31, 2014 includes gains on sales of fixed assets of \$0.4 million. The Company also recorded foreign exchange losses of approximately \$0.2 million during the six months ended January 31, 2014. These net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$0.5 million in Asia, offset by realized and unrealized gains of approximately \$0.2 million and \$0.3 million in the Americas and Europe, respectively.

The Company recorded foreign exchange losses of approximately \$2.1 million during the six months ended January 31, 2013. These net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$1.1 million and \$1.5 million in Asia and Europe, respectively, offset by realized and unrealized gains of approximately \$0.6 million in the Americas.

Impairment of Investments in Affiliates:

During the six months ended January 31, 2014, the Company recorded \$0.2 million in impairment charges related to its investment in the @Ventures portfolio of companies. During the six months ended January 31, 2013, the Company recorded a \$1.5 million of impairment charge related to a certain investment in the @Ventures portfolio of companies. The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular investment's net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee's cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes and competition. The valuation process is based primarily on information that the Company requests from these privately held companies which are not subject to the same disclosure and audit requirements as those of U.S. public companies. As such, the reliability and the accuracy of the data may vary.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to volatility in our reported results of operations in the past and may negatively impact our results of operations in the future. We may incur impairment charges to our investments in privately held companies, which could have an adverse impact on our future results of operations. A decline in the carrying value of our \$8.1 million of investments in affiliates at January 31, 2014 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by \$0.8 million to \$1.6 million.

Income Tax Expense:

During the six months ended January 31, 2014, the Company recorded income tax expense of approximately \$1.9 million, as compared to income tax expense of \$1.6 million for same period in the prior fiscal year. For the six months ended January 31, 2014 and 2013, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions.

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

Equity in Losses of Affiliates:

Equity in losses of affiliates results from the Company's minority ownership in certain investments through its @Ventures portfolio that are accounted for under either the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's operating income or losses is included in equity in losses of affiliates. Equity in losses of affiliates was \$0.1 million and \$1.0 million for the six months ended January 31, 2014 and 2013, respectively.

During the six months ended January 31, 2013, @Ventures received a distribution from one of its investments in the amount of \$0.2 million. No distributions were received during the six months ended January 31, 2014.

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 January 31, 2014, the Company's primary sources of liquidity consisted of cash and cash equivalents of \$75.3 million. As of January 31, 2014 the Company had approximately \$31.9 million of cash and cash equivalents held outside of the U.S. Of this amount, approximately \$10.6 million is considered permanently invested due to certain restrictions under local laws, and \$21.3 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 October 31, 2012, the Company and certain of its domestic subsidiaries entered into a Credit Agreement (the Credit Facility) with Wells Fargo Bank, National Association as lender and agent for the lenders party thereto. The Credit Facility provides a senior secured revolving credit facility up to an initial aggregate principal amount of \$50.0 million or the calculated borrowing base and is secured by substantially all of the domestic assets of the Company. As of January 31, 2014, the calculated borrowing base was \$36.6 million. The Credit Facility terminates on October 31, 2015. Interest on the Credit Facility is based on the Company's options of LIBOR plus 2.5% or the base rate plus 1.5%. The Credit Facility includes one restrictive financial covenant, which is minimum EBITDA, and restrictions that limit the ability of the Company, to among other things, create liens, incur additional indebtedness, make investments, or dispose of assets or property without prior approval from the lenders. The Company did not have any outstanding indebtedness related to the Credit Facility as of January 31, 2014.

Consolidated working capital was \$122.9 million at January 31, 2014, compared with \$114.7 million at July 31, 2013. Included in working capital were cash and cash equivalents of \$75.3 million at January 31, 2014 and \$77.9 million at July 31, 2013. The increase in working capital is primarily due to increases in accounts receivable and inventory.

Net cash provided by operating activities of continuing operations was \$0.5 million for the six months ended January 31, 2014, as compared to \$3.8 million in the prior year period. The \$3.3 million decrease in net cash provided by operating activities of continuing operations as compared with the same period in the prior year was due increased working capital requirements in the current period offset by a significant improvement in net income. During the six months ended January 31, 2014, non-cash items within net cash provided by operating activities included depreciation expense of \$6.6 million, share-based compensation of \$1.2 million, amortization of intangible assets of \$0.6 million, impairment of long-lived assets of \$0.5 million, amortization of deferred financing costs of \$0.2 million, non-operating gain, net, of \$0.2 million and equity in losses of affiliates and impairments of \$0.3 million. During the six months ended January 31, 2013, non-cash items within net cash provided by operating activities included depreciation expense of \$6.8 million, share-based compensation of \$0.9 million, amortization of intangible assets of \$0.6 million, non-operating losses, net, of \$2.3 million and equity in losses of affiliates and impairments of \$2.5 million.

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

Investing activities of continuing operations used cash of \$2.1 million and \$4.2 million during the six months ended January 31, 2014 and 2013, respectively. The \$2.1 million of cash used in investing activities during the six months ended January 31, 2014 was comprised of \$1.7 million in capital expenditures and \$0.4 million of investments in affiliates. The \$4.2 million of cash used in investing activities during the six months ended January 31, 2013 was primarily comprised of \$3.6 million in capital expenditures, \$0.7 million of restricted cash used as collateral for borrowing obligations and \$1.5 million of investments in affiliates, partially offset by \$1.3 million of proceeds received from the sale of TFL's assets.

Cash flows from financing activities of continuing operations during both the six months ended January 31, 2014 and 2013 primarily related to the net proceeds from issuance of the Company's common stock under employee stock plans. Cash used in discontinued operations totaled \$0.6 million and \$1.4 million for the six months ended January 31, 2014 and 2013, respectively.

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, cash provided by operating activities and an unused line

of credit. The Company's ability to fund planned capital expenditures and to make acquisitions will depend upon its future operating performance, which will be affected by prevailing economic conditions in the markets in which it operates, as well as financial, business and other factors, some of which are beyond its control. The ability of the Company to draw on the revolving line of credit is limited by a borrowing base of accounts receivable and inventory. In addition, the line of credit is subject to certain restrictive and financial covenants. There can be no assurances that the Company will continue to have access to its line of credit if its financial performance does not satisfy the relevant borrowing base criteria and financial covenants set forth in the financing agreement. If the Company does not meet certain of its financial covenants or satisfy its borrowing base criteria, and if it is unable to secure necessary waivers or other amendments from the respective lenders on terms acceptable to management, its ability to access available lines of credit could be limited and liquidity could be adversely affected.

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, 2013. The Company's contractual obligations and other commercial commitments did not change materially between July 31, 2013 and January 31, 2014. The Company's gross liability for unrecognized tax benefits and related accrued interest was approximately \$1.1 million as of January 31, 2014. The Company is unable to reasonably estimate the amount or timing of payments for the liability.

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

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of 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 six months ended January 31, 2014, we believe that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in the "Critical Accounting Policies" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2013.

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, 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

At January 31, 2014, the Company had no outstanding borrowings under its Credit Facility and the Company had no open derivative positions with respect to its borrowing arrangements.

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

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

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. The Company has historically used derivative financial instruments on a limited basis, principally foreign currency exchange rate contracts, to minimize the transaction exposure that results from such fluctuations. As of January 31, 2014, the Company had one outstanding foreign currency exchange contract of \$0.5 million denominated in U.S. dollars against an exposure in Australian dollars.

Revenues from our foreign operating segments accounted for approximately 53.8% and 54.6% of total revenues during the three and six months ended January 31, 2014, 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 Euros, Singapore Dollars, Chinese Renminbi, Hungarian Forints and Czech Koruna. 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 and six months ended January 31, 2014, we recorded a foreign currency translation loss of approximately \$2.1 and \$0.1 million, respectively, which is recorded within accumulated other comprehensive income in stockholders' equity in our condensed consolidated balance sheet. In addition, certain of our subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. For the six months ended January 31, 2014, we recorded realized and unrealized foreign currency transaction losses of approximately \$0.2 million which is recorded in Other gains (losses), net in our condensed consolidated statement of operations.

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

Item 4. Controls and Procedures.

Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the

Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

There have not been any material changes in the legal proceedings previously disclosed in the Item 3. Legal Proceedings of our Annual Report on Form 10-K, for the fiscal year ended July 31, 2013. From time to time, we may become involved in litigation relating to claims arising out of operations in the normal course of business, which we consider routine and incidental to our business.

Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. Forward-looking statements in this document and those we make from time to time through our senior management are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements concerning the expected future revenue or earnings or concerning projected plans, performance, or development of products and services, as well as other estimates related to future operations are necessarily only estimates of future results. We cannot assure you that actual results will not materially differ from expectations. Forward-looking statements represent our current expectations and are inherently uncertain. We do not undertake any obligation to update forward-looking statements. Factors that could cause actual results to differ materially from results anticipated in forward-looking statements include, but are not limited to, the following:

RISKS RELATED TO MODUSLINK'S SUPPLY CHAIN BUSINESS

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

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

In addition, the loss of a significant amount of business or program with any key client could cause our revenue to decline. For the six months ended January 31, 2014, sales to one client, Hewlett-Packard, accounted for approximately 29% of our consolidated net revenue. For the six months ended January 31, 2013, our top ten clients accounted for approximately 80% of our consolidated net revenue. We expect to continue to derive the vast majority of our operating revenue from sales to a small number of key clients. In general, we do not have any agreements which obligate any client to buy a minimum amount of services from us, or to designate us as its sole supplier of any particular services. The loss of business with any key clients, or a decision by any one of our key clients to significantly change or reduce the services we provide, could have a material adverse effect on our business. We cannot assure you that our revenue from key clients will not decline in future periods.

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

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

For the six month periods ended January 31, 2014 and 2013, we reported operating income of \$3.9 million and an operating loss of \$15.8 million, respectively. We anticipate that we will continue to incur significant fixed operating expenses in the future, including both cost of revenue and selling, general and administrative expenses. Therefore, since our revenue is subject to fluctuations, we cannot assure you that we will achieve or sustain operating income in the future. We may also use significant amounts of cash in an effort to increase the efficiency and profitability of our business. At January 31, 2014, we had consolidated cash and cash equivalents of approximately \$75.3 million and current liabilities of approximately \$177.5 million. If we are unable to achieve or sustain operating profitability, we risk depleting our working capital balances and our business will be materially adversely affected.

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

materially adversely affect our financial results.

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

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

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

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

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

Our quarterly results may fluctuate significantly.

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

results to be expected in future periods. These factors include:

how well we execute on our strategy and operating plans;

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

demand for our services;

consumer confidence and demand;

specific economic conditions in the industries in which we compete;

general economic and financial market conditions;

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

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

timing of sales of assets and marketable securities;

market acceptance of new products and services;

seasonality;

temporary shortages in supply from vendors;

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

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

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

changes in accounting rules.

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

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

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

Our ability to obtain particular products or components in the quantities required to fulfill client orders on a timely basis is critical to our success. We have no guaranteed price or delivery agreements with our suppliers. We may occasionally experience a supply shortage of some products as a result of strong demand or problems experienced by our suppliers. If shortages or delays persist, the price of those products may increase, or the products may not be available at all. Accordingly, an inability to secure and maintain an adequate supply of products or components to fulfill our client orders on a timely basis, or a failure to meet clients' expectations could result in lost revenue, lower client satisfaction, negative perceptions in the marketplace, potential claims for damages and have a material adverse effect on our business.

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

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

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

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

We are subject to risks of operating internationally.

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

We currently conduct business in many countries including China, Czech Republic, the Netherlands, Ireland, and Singapore, among others, in addition to our United States operations. International revenue accounted for approximately 55% of our total consolidated net revenue for the six months ended January 31, 2014. A portion of our international revenue, cost of revenue and operating expenses are denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating results. There is also additional risk if the foreign currency is not freely traded. Some currencies, such as the Chinese Renminbi, are subject to limitations on conversion into other currencies, which can limit or delay our ability to repatriate funds or engage in hedging activities. While we may enter into forward currency exchange contracts to manage a portion of our exposure to foreign currencies, future exchange rate fluctuations may have a material adverse effect on our business and operating results.

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

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

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

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

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

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

difficulties and limitations on the repatriation of cash;

currency fluctuation and exchange rate risks;

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

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

difficulty retaining management personnel and skilled employees; and

expiration of tax holidays.

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

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

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

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

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

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

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

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

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

adjustments to estimated taxes upon finalization of various tax returns;

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

changes in available tax credits;

changes in share-based compensation;

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

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

increases in tax rates in various jurisdictions; and

the expiration of tax holidays.

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

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

As a result of intense price competition in the technology products marketplace, the gross margins in our Supply Chain Business are low, and we expect them to continue to be low in the future. These low gross margins magnify the impact of variations in revenue and operating costs on our financial results. Although we have identified initiatives designed to increase our gross margins, increased competition arising from industry consolidation and/or low demand for products may hinder our ability to maintain or improve our gross margins. Portions of our operating expenses are relatively fixed, and planned expenditures are based in part on anticipated orders. Our current ability to forecast the amount and timing of future order volumes is difficult, and we expect this to continue because we are highly dependent upon the business needs of our clients, which are highly variable. As a result, we may not be able to reduce our operating expenses as a percentage of revenue to mitigate any further reductions in gross margins. We may also be required to spend money to restructure our operations should future demand fall significantly in any one facility. If we cannot proportionately decrease our cost structure in response to competitive price pressures, our business, financial condition and operating results could be adversely affected.

We continue to be subject to intense competition.

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

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

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

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

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

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

delayed or lost revenue due to adverse client reaction;

negative publicity; and

litigation that could be costly and time consuming.

We could be subject to infringement claims and other liabilities.

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

subjecting us to significant liability for damages;

resulting in invalidation of our proprietary rights;

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

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

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

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

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

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

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

OTHER RISKS ASSOCIATED WITH THE COMPANY

We may be unable to realize the benefits of our net operating loss carry-forwards (NOLs).

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

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

The amount of NOLs that we have claimed has not been audited or otherwise validated by the U.S. Internal Revenue Service (IRS). The IRS could challenge our calculation of the amount of our NOLs or our determinations as to when a

prior change in ownership occurred, and other provisions of the Internal Revenue Code may limit our ability to carry forward our NOLs to offset taxable income in future years. If the IRS was successful with respect to any such challenge, the potential tax benefit of the NOLs to us could be substantially reduced.

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

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

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

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

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

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

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

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

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

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

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

the working capital needs for acquired companies may be significant;

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

exposure to unforeseen liabilities of acquired companies; and

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

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

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

The market price of our common stock has been and is likely to continue to be volatile. Our common stock has traded as low as \$2.65 per share and as high as \$5.88 per share during the six-month period ended January 31, 2014. Future market movements unrelated to our performance may adversely affect the market price of our common stock.

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

We test goodwill for impairment annually or if a triggering event occurs. We also test long-lived assets for impairment if a triggering event occurs. Our policy is to perform the annual impairment testing for all reporting units, determined to be the Americas, Europe, Asia, e-Business and ModusLink PTS, on July 31 of each fiscal year or whenever events or circumstances change that would more likely than not reduce the fair value of any of our reporting units below its carrying value. As of January 31, 2014 we had goodwill of \$3.1 million allocated to the e-Business reporting unit, and \$1.2 million of long-lived intangible assets, of which \$1.1 million related to e-Business and \$0.1 million to ModusLink PTS. The Company performed its annual impairment test on July 31, 2013 and concluded that there was no impairment to either goodwill or long-lived assets. However, we had a \$0.5 million impairment of long-lived assets during the six-month period ended January 31, 2014 and we have had material non-cash impairment charges in prior years.

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

It is not possible at this time to determine if any such future impairment charge would result from these factors, or if it does, whether such charges would be material. We will continue to review our goodwill and other long-lived assets for possible impairment. We cannot be certain that a downturn in our business or changes in market conditions will

not result in an impairment of goodwill or other long-lived assets and the recognition of resulting expenses in future periods, which could adversely affect our results of operations for those periods.

Venture capital investing is risky and highly speculative.

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

Investments made by @Ventures are (i) carried at the lesser of their historic cost basis or net realizable value or (ii) accounted for under the equity method of accounting, if we hold at least 20% but less than 50% of the issued and outstanding stock of the investee. At January 31, 2014, these investments had a carrying value of \$8.1 million.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to significant volatility in our reported results of operations in the past and may negatively impact our results of operations in the future. The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. We recorded non-cash impairment charges related to our @Ventures investments of approximately \$0.2 million and \$1.5 million during the six-month periods ended January 31, 2014 and 2013, respectively. The process of assessing whether a particular equity investment's net realizable value is less than its carrying cost requires a significant amount of subjective judgment. We may incur impairment charges to our investments in privately held companies, which could have an adverse impact on our future results of operations.

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

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

We face risks related to the ongoing SEC Inquiry.

As previously disclosed, on February 15, 2012, the Division of Enforcement of the SEC informed the Company that it was conducting an inquiry regarding the Company's treatment of rebates associated with volume discounts provided by vendors. The Company, at the direction of the Audit Committee of the Company's Board of Directors, is cooperating fully with the SEC staff's inquiry. At this point, we are unable to predict what, if any, consequences the SEC inquiry may have on us. However, the inquiry has resulted and could continue to result in considerable legal expenses, divert management's attention from other business concerns and harm our business. If the SEC were to

commence legal action, we could be required to pay significant penalties and/or other amounts and could become subject to injunctions, an administrative cease and desist order, and/or other equitable remedies. Concurrent with the SEC inquiry, the Audit Committee of the Company's Board of Directors commenced an investigation of the Company's accounting treatment with regard to rebates received from vendors, and errors were found. In January 2013 we filed restated financial statements for periods ending on or before January 31, 2012, to correct the discovered accounting errors; however, this did not nor was it expected to resolve the SEC inquiry. Further, the resolution of the SEC inquiry could require the filing of additional restatements of our prior financial statements, and/or our restated financial statements, or require that we take other actions not presently contemplated. In the recent past, the SEC has announced that it will increasingly focus in enforcement actions for violations of its rules on action against both companies and individuals at such companies who they determine to have violated such rules. We can provide no assurances as to the outcome of the SEC inquiry, and the outcome could have a material adverse impact on our business.

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

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

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

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

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number Approximate of Shares Dollar Repurchased as Value of Part of Shares that May Publicly Yet Be Purchased	
			Announced Programs or Programs	Under the Plans or Programs
November 1, 2013 - November 30, 2013	215 ⁽¹⁾	\$ 4.18		\$
December 1, 2013 - December 31, 2013	(1)	\$		
January 1, 2014 - January 31, 2014	1,262 ⁽¹⁾	\$ 5.33		

- (1) Consists of shares delivered to the Company as payment of tax liability upon the vesting of shares of restricted stock.

Item 6. Exhibits.

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

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: March 3, 2014

By: */s/* STEVEN G. CRANE
Steven G. Crane
Chief Financial Officer

EXHIBIT INDEX

- 10.1 ModusLink Global Solutions, Inc. FY2014 Executive Management Incentive Plan is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 8, 2013 (File No. 001-35319).
- 10.2 ModusLink Global Solutions, Inc. FY2014 Performance Based Restricted Stock Plan is incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on November 8, 2013 (File No. 001-35319).
- 10.3 Offer Letter from ModusLink Global Solutions, Inc. to Alan Cormier entered into December 20, 2013 is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 26, 2013 (File No. 001-35319).
- 10.4 Executive Severance Agreement by and between ModusLink Global Solutions, Inc. and Alan Cormier, dated as of December 23, 2013 is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 13, 2013 (File No. 001-35319).
- 10.5 First Amendment to Credit Agreement, dated as of December 18, 2013, by and among the Registrant, certain of its subsidiaries and Wells Fargo Bank, National Association.
- 16.1 Letter to Securities and Exchange Commission from KPMG LLP, dated January 16, 2014 is incorporated herein by reference to Exhibit 16.1 to the Registrant's Current Report on Form 8-K filed on January 16, 2014 (File No. 001-35319).
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial 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 Chief Financial 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 January 31, 2014 and July 31, 2013, (ii) Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months ended January 31, 2014 and 2013, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months ended January 31, 2014 and 2013 (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months ended January 31, 2014 and 2013 and (v) Notes to Unaudited Condensed Consolidated Financial Statements.