

ModusLink Global Solutions Inc  
Form 10-Q  
March 11, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended January 31, 2016**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-35319**

**ModusLink Global Solutions, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(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

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 29, 2016, there were 52,712,007 shares issued and outstanding of the registrant's Common Stock, \$0.01 par value per share.

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**MODUSLINK GLOBAL SOLUTIONS, INC.**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements**

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	<b>January 31, 2016</b>	<b>July 31, 2015</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 141,434	\$ 119,431
Trading securities	27,982	78,716
Accounts receivable, trade, net of allowance for doubtful accounts of \$51 and \$57 at January 31, 2016 and July 31, 2015, respectively	162,044	131,216
Inventories	48,235	48,740
Funds held for clients	31,920	21,807
Prepaid expenses and other current assets	22,794	13,732
Total current assets	434,409	413,642
Property and equipment, net	21,494	22,736
Other assets	9,455	10,124
Total assets	\$ 465,358	\$ 446,502
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 158,564	\$ 120,118
Accrued restructuring	1,075	1,528
Accrued expenses	40,311	38,970
Other current liabilities	57,662	50,737
Total current liabilities	257,612	211,353
Notes payable	80,337	77,864
Other long-term liabilities	12,550	12,684
Long-term liabilities	92,887	90,548
Total liabilities	350,499	301,901
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding shares at January 31, 2016 and July 31, 2015	527	522

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Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares;  
52,682,326 issued and outstanding shares at January 31, 2016; 52,233,888 issued  
and outstanding shares at July 31, 2015

Additional paid-in capital	7,453,299	7,452,410
Accumulated deficit	(7,340,562)	(7,311,841)
Accumulated other comprehensive income	1,595	3,510
Total stockholders' equity	114,859	144,601
Total liabilities and stockholders' equity	\$ 465,358	\$ 446,502

See accompanying notes to unaudited condensed consolidated financial statements

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

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2016	2015	2016	2015
Net revenue	\$ 119,966	\$ 148,310	\$ 261,055	\$ 335,754
Cost of revenue	116,311	131,716	244,948	300,322
Gross profit	3,655	16,594	16,107	35,432
Operating expenses				
Selling, general and administrative	14,773	14,639	29,025	30,161
Amortization of intangible assets		268		536
Impairment of long-lived assets	305		305	
Restructuring, net	240	1,041	1,247	2,942
Total operating expenses	15,318	15,948	30,577	33,639
Operating income (loss)	(11,663)	646	(14,470)	1,793
Other income (expense):				
Interest income	114	355	202	419
Interest expense	(2,777)	(2,619)	(5,506)	(5,286)
Other gains (losses), net	325	411	(8,108)	3,238
Impairment of investments in affiliates			(42)	
Total other income (expense)	(2,338)	(1,853)	(13,454)	(1,629)
Income (loss) before income taxes	(14,001)	(1,207)	(27,924)	164
Income tax expense	206	549	1,056	1,706
Gains of affiliates, net of tax	(259)	(200)	(259)	(208)
Net loss	\$ (13,948)	\$ (1,556)	\$ (28,721)	\$ (1,334)
Basic net loss per share	\$ (0.27)	\$ (0.03)	\$ (0.55)	\$ (0.03)
Diluted net loss per share	\$ (0.27)	\$ (0.03)	\$ (0.55)	\$ (0.03)
Weighted average common shares used in:				
Basic earnings per share	51,879	51,646	52,039	51,888
Diluted earnings per share	51,879	51,646	52,039	51,888

See accompanying notes to unaudited condensed consolidated financial statements



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

	<b>Three Months Ended January 31,</b>		<b>Six Months Ended January 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net loss	\$ (13,948)	\$ (1,556)	\$ (28,721)	\$ (1,334)
Other comprehensive income:				
Foreign currency translation adjustment	(1,077)	(4,515)	(1,946)	(7,154)
Pension liability adjustments, net of tax		(450)		(811)
Net unrealized holding gain (loss) on securities, net of tax	3	1	31	(6)
Other comprehensive loss	(1,074)	(4,964)	(1,915)	(7,971)
Comprehensive loss	\$ (15,022)	\$ (6,520)	\$ (30,636)	\$ (9,305)

See accompanying notes to unaudited condensed consolidated financial statements

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

(in thousands)

(unaudited)

	<b>Six Months Ended</b>	
	<b>January 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (28,721)	\$ (1,334)
<b>Adjustments to reconcile loss from continuing operations to net cash used in operating activities:</b>		
Depreciation	3,874	4,729
Amortization of intangible assets		536
Amortization of deferred financing costs	364	277
Accretion of debt discount	2,473	2,169
Impairment of long-lived assets	305	
Share-based compensation	958	855
Non-operating (gains) losses, net	8,108	(3,238)
(Gains) of affiliates and impairments	(217)	(208)
<b>Changes in operating assets and liabilities:</b>		
Trade accounts receivable, net	(33,592)	(15,819)
Inventories	(609)	(5,316)
Prepaid expenses and other current assets	(22,334)	(12,166)
Accounts payable, accrued restructuring and accrued expenses	43,136	31,430
Refundable and accrued income taxes, net	1,918	2,044
Other assets and liabilities	5,388	15,528
<b>Net cash provided by (used in) operating activities</b>	<b>(18,949)</b>	<b>19,487</b>
<b>Cash flows from investing activities:</b>		
Additions to property and equipment	(3,234)	(3,823)
Proceeds from the disposition of property and equipment	1,318	
Sale (purchase) of trading securities	43,698	(69,221)
Investments in affiliates	(42)	(216)
Proceeds from investments in affiliates	259	408
<b>Net cash provided by (used in) investing activities</b>	<b>41,999</b>	<b>(72,852)</b>
<b>Cash flows from financing activities:</b>		
Repayments on capital lease obligations	(114)	(93)
Net proceeds from (repayments of) revolving line of credit		(4,453)
Proceeds from issuance of common stock		24

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Repurchase of common stock	(78)	
Net cash used in financing activities	(192)	(4,522)
Net effect of exchange rate changes on cash and cash equivalents	(855)	(2,756)
Net increase (decrease) in cash and cash equivalents	22,003	(60,643)
Cash and cash equivalents at beginning of period	119,431	183,515
Cash and cash equivalents at end of period	\$ 141,434	\$ 122,872

See accompanying notes to unaudited condensed consolidated financial statements

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**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**(1) NATURE OF OPERATIONS**

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

The Company has an integrated network of strategically located facilities in various countries, including numerous sites throughout North America, Europe and Asia. The Company previously operated under the names CMGI, Inc. and CMG Information Services, Inc. and was incorporated in Delaware in 1986.

**(2) BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2015, which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ( SEC ) on October 14, 2015. The results for the three and six months ended January 31, 2016 are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the period ended January 31, 2016, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

**(3) RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects

the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The effective date will be the first quarter of fiscal year 2019 using one of two retrospective application methods or a cumulative effect approach. The Company is evaluating the potential effects on the consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15 Presentation of Financial Statements - Going Concern (Subtopic 205-40), which amends the accounting guidance related to the evaluation of an entity's ability to continue as a going concern. The amendment establishes management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern in connection with preparing financial statements for each annual and interim reporting period. The update also gives guidance to determine whether to disclose information about relevant conditions and events when there is substantial doubt about an entity's ability to continue as a going concern. This guidance will be effective for the Company as of the first quarter of fiscal year 2017. The new guidance is not anticipated to have an effect on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02 Consolidation (Topic 810), Amendments to Consolidation Analysis, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This ASU will be effective for the Company beginning in the first quarter of fiscal year 2017. The Company will assess the impact of this standard on its financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. This ASU will be effective for the Company beginning in the first quarter of fiscal year 2017. The Company will assess the impact of this standard on its financial statements.

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

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. This ASU will be effective for the Company beginning in the first quarter of fiscal year 2018. The Company is currently evaluating the effect the guidance will have on the Company's financial statement disclosures, results of operations and financial position.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today's accounting. This ASU will be effective for the Company beginning in the first quarter of fiscal year 2019. The Company is currently evaluating the effect the guidance will have on the Company's financial statement disclosures, results of operations and financial position.

**(4) INVENTORIES**

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

Inventories consisted of the following:

	<b>January 31, 2016</b>	<b>July 31, 2015</b>
	<b>(In thousands)</b>	
Raw materials	\$ 38,341	\$ 38,922
Work-in-process	510	536
Finished goods	9,384	9,282
	\$ 48,235	\$ 48,740

The Company continuously monitors inventory balances and records inventory provisions for any excess of the cost of the inventory over its estimated market value. The Company also monitors inventory balances for obsolescence and

excess quantities as compared to projected demands. The Company's inventory methodology is based on assumptions about average shelf life of inventory, forecasted volumes, forecasted selling prices, contractual provisions with our clients, write-down history of inventory and market conditions. While such assumptions may change from period to period, in determining the net realizable value of its inventories, the Company uses the best information available as of the balance sheet date. If actual market conditions are less favorable than those projected, or the Company experiences a higher incidence of inventory obsolescence because of rapidly changing technology and client requirements, additional inventory provisions may be required. Once established, write-downs of inventory are considered permanent adjustments to the cost basis of inventory and cannot be reversed due to subsequent increases in demand forecasts. Accordingly, if inventory previously written down to its net realizable value is subsequently sold, gross profit margins may be favorably impacted.

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**(5) INVESTMENTS**

*Trading securities*

During the quarter ended July 31, 2015, the Company sold \$3.9 million in Trading Securities, with a realized gain of \$0.8 million. However, the cash associated with \$2.1 million of these trades was received subsequent to July 31, 2015. The receivable associated with this receipt is classified under other current assets on our balance sheet as of July 31, 2015. As of July 31, 2015, the Company had \$78.7 million in investments in Trading Securities, \$41.3 million of which were the publicly traded convertible debentures.

During the three months ended January 31, 2016, the Company sold \$15.5 million in Trading Securities, with a realized gain of \$1.2 million. However, the cash associated with \$0.8 million of these trades was received subsequent to January 31, 2016. The receivable associated with this receipt is classified under other current assets on our balance sheet as of January 31, 2016. During the three months ended January 31, 2016, the Company received \$14.8 million in proceeds associated with the sale of Trading Securities. During the six months ended January 31, 2016, the Company received \$43.7 million in proceeds associated with the sale of Trading Securities, which included a realized gain of \$5.5 million. During the three and six months ended January 31, 2015, there were no sales of Trading Securities. During the three and six months ended January 31, 2016, the Company recognized \$0.1 million and \$13.8 million in unrealized net losses associated with its Trading Securities, respectively. As of January 31, 2016, the Company had \$28.0 million in investments in Trading Securities, \$11.0 million of which were the publicly traded convertible debentures. The Company's purchases of the publicly traded convertible debentures were on the open market. The Chairman of the Board of the company issuing the publicly traded convertible debentures is also the Chairman of the Board of ModusLink Global Solutions, Inc. The Trading Securities were classified within Level 1 of the fair value hierarchy.



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The following table reflects the components of Other Current Liabilities :

	<b>January 31, 2016</b>	<b>July 31, 2015</b>
	<b>(In thousands)</b>	
Accrued pricing liabilities	\$ 18,882	\$ 18,882
Funds held for clients	31,920	21,807
Other	6,860	10,048
	<b>\$ 57,662</b>	<b>\$ 50,737</b>

As of January 31, 2016 and July 31, 2015, the Company had accrued pricing liabilities of approximately \$19.0 million and \$18.9 million, respectively. As previously reported by the Company, several adjustments were made to its historic financial statements for periods ending on or before January 31, 2012, the most significant of which related to the treatment of vendor rebates in its pricing policies. Where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract (collectively referred to as pricing adjustments), the Company concluded that these amounts were not properly recorded as revenue. Accordingly, revenue was reduced by an equivalent amount for the period that the rebate was estimated to have affected. A corresponding liability for the same amount was recorded in that period (referred to as accrued pricing liabilities). The Company believes that it may not ultimately be required to pay all of the accrued pricing liabilities, due in part to the nature of the interactions with its clients. The remaining accrued pricing liabilities at January 31, 2016 will be derecognized when there is sufficient information for the Company to conclude that such liabilities have been extinguished, which may occur through payment, legal release, or other legal or factual determination.

**(7) RESTRUCTURING, NET**

Restructuring and other costs for the three and six months ended January 31, 2016 primarily included continuing charges for personnel reductions and facility consolidations in an effort to streamline operations across our global supply chain operations. It is expected that the payments of employee-related charges will be substantially completed during the fiscal year ended July 31, 2016. The remaining contractual obligations primarily relate to facility lease obligations for vacant space resulting from the previous restructuring activities of the Company. The Company anticipates that these contractual obligations will be substantially fulfilled by the end of April 2016.

The \$0.2 million restructuring charge recorded during the three months ended January 31, 2016 primarily consisted of \$0.1 million and \$0.1 million of contractual charges in the Americas and Europe, respectively. The \$1.0 million restructuring charge recorded during the three months ended October 31, 2015 primarily consisted of \$0.8 million and \$0.3 million employee-related costs in the Americas and Asia, respectively, related to the workforce reduction of 55 employees in our global supply chain.

The \$1.0 million restructuring charge recorded during the three months ended January 31, 2015 primarily consisted of \$0.4 million, \$0.1 million and \$0.5 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 72 employees in our global supply chain operations. The \$1.9 million restructuring charge recorded during the three months ended October 31, 2014 primarily consisted of \$0.4 million, \$0.5 million and \$1.0 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the

workforce reduction of 93 employees in our global supply chain.

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The following tables summarize the activities related to the restructuring accrual by expense category and by reportable segment for the six months ended January 31, 2016:

	<b>Employee Related Expenses</b>	<b>Contractual Obligations</b>	<b>Total</b>
	<b>(In thousands)</b>		
Accrued restructuring balance at July 31, 2015	\$ 1,437	\$ 91	\$ 1,528
Restructuring charges	1,090	281	1,371
Restructuring adjustments	(123)	(1)	(124)
Cash paid	(1,613)	(94)	(1,707)
Non-cash adjustments	6	1	7
Accrued restructuring balance at January 31, 2016	\$ 797	\$ 278	\$ 1,075

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	Americas	Asia	Europe (In thousands)	e-Business	Consolidated Total
Accrued restructuring balance at July 31, 2015	\$ 235	\$ 253	\$ 1,026	\$ 14	\$ 1,528
Restructuring charges	920	351	96	4	1,371
Restructuring adjustments		(44)	(80)		(124)
Cash paid	(357)	(431)	(919)		(1,707)
Non-cash adjustments		(9)	16		7
Accrued restructuring balance at January 31, 2016	\$ 798	\$ 120	\$ 139	\$ 18	\$ 1,075

The net restructuring charges for the three and six months ended January 31, 2016 and 2015 would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

	Three Months Ended January 31, 2016		Six Months Ended January 31, 2015	
	(In thousands)			
Cost of revenue	\$ 83	\$ 769	\$ 898	\$ 2,651
Selling, general and administrative	157	272	349	291
	\$ 240	\$ 1,041	\$ 1,247	\$ 2,942

**(8) DEBT***Notes Payable*

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

Holders of the Notes may convert all or any portion of their notes, in multiples of \$1,000 principal amount, at their option at any time prior to the close of business or the business day immediately preceding the maturity date. Each \$1,000 of principal of the Notes will initially be convertible into 166.2593 shares of our common stock, which is equivalent to an initial conversion price of approximately \$6.01 per share, subject to adjustment upon the occurrence of certain events, or, if the Company obtains the required consent from its stockholders, into shares of the Company's common stock, cash or a combination of cash and shares of its common stock, at the Company's election. If the Company has received stockholder approval, and it elects to settle conversions through the payment of cash or payment or delivery of a combination of cash and shares, the Company's conversion obligation will be based on the volume weighted average prices ("VWAP") of its common stock for each VWAP trading day in a 40 VWAP trading

day observation period. The Notes and any of the shares of common stock issuable upon conversion have not been registered. As of January 31, 2016, the if-converted value of the Notes did not exceed the principal value of the Notes.

Holders will have the right to require the Company to repurchase their Notes, at a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, upon the occurrence of certain fundamental changes, subject to certain conditions. No fundamental changes occurred during the quarter ended January 31, 2016.

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

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

The Company has valued the debt using similar nonconvertible debt as of the original issuance date of the Notes and bifurcated the conversion option associated with the Notes from the host debt instrument and recorded the conversion option of \$28.1 million in stockholders' equity prior to the allocation of debt issuance costs. The initial value of the equity component, which reflects the equity conversion feature, is equal to the initial debt discount. The resulting debt discount on the Notes is being accreted to interest expense at the effective interest rate over the estimated life of the Notes. The equity component is included in the additional paid-in-capital portion of stockholders' equity on the Company's consolidated balance sheet. In addition, the debt issuance costs of \$3.4 million are allocated between the liability and equity components in proportion to the allocation of the proceeds. The issuance costs allocated to the liability component (\$2.5 million) are capitalized as a long-term asset on the Company's balance sheet and amortized, using the effective-interest method, as additional interest expense over the term of the Notes. This amount has been classified as long-term as the underlying debt instrument has been classified as a long-term liability in the Company's balance sheet. The issuance costs allocated to the equity component is recorded as a reduction to additional paid-in capital. The fair value of our Notes payable, calculated as of the closing price of the traded securities, was \$73.4 million and \$88.2 million as of January 31, 2016 and July 31, 2015, respectively. This value does not represent the settlement value of these long-term debt liabilities to the Company. The fair value of the Notes payable could vary each period based on fluctuations in market interest rates, as well as changes to our credit ratings. The Notes payable are traded and their fair values are based upon traded prices as of the reporting dates. As of January 31, 2016 and July 31, 2015, the net carrying value of the Notes was \$80.3 million and \$77.9 million, respectively.

	<b>January 31, 2016</b>	<b>July 31, 2015</b>
	<b>(In thousands)</b>	
Carrying amount of equity component (net of allocated debt issuance costs)	\$ 27,163	\$ 27,163
Principal amount of Notes	\$ 100,000	\$ 100,000
Unamortized debt discount	(19,663)	(22,136)
Net carrying amount	\$ 80,337	\$ 77,864

As of January 31, 2016, the remaining period over which the unamortized discount will be amortized is 37 months.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January 31,</b>		<b>January 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>			

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Interest expense related to contractual interest coupon	\$ 1,323	\$ 1,313	\$ 2,646	\$ 2,626
Interest expense related to accretion of the discount	1,258	1,142	2,473	2,169
Interest expense related to debt issuance costs	111	97	219	188
	\$ 2,692	\$ 2,552	\$ 5,338	\$ 4,983

During the three and six months ended January 31, 2016, the Company recognized interest expense of \$2.7 million and \$5.3 million, respectively. During the three and six months ended January 31, 2015, the Company recognized interest expense of \$2.5 million and \$5.0 million, respectively. The effective interest rate on the Notes, including amortization of debt issuance costs and accretion of the discount, is 14.11%. The notes bear interest of 5.25%.

*PNC Bank Credit Facility*

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

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The Credit Agreement has a five (5) year term which expires on June 30, 2019. It includes a maximum credit commitment of \$50.0 million, is available for letters of credit (with a sublimit of \$5.0 million) and has a \$20.0 million uncommitted accordion feature. The actual maximum credit available under the Credit Agreement varies from time to time and is determined by calculating the applicable borrowing base, which is based upon applicable percentages of the values of eligible accounts receivable and eligible inventory minus reserves determined by the Agent (including other reserves that the Agent may establish from time to time in its permitted discretion), all as specified in the Credit Agreement.

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

Obligations under the Credit Agreement are guaranteed by the Borrowers' existing and future direct and indirect wholly-owned domestic subsidiaries, subject to certain limited exceptions; and the Credit Agreement is secured by security interests in substantially all the Borrowers' assets and the assets of each subsidiary guarantor, whether owned as of the closing or thereafter acquired, including a pledge of 100.0% of the equity interests of each subsidiary guarantor that is a domestic entity (subject to certain limited exceptions) and 65.0% of the voting equity interests of any direct first tier foreign entity owned by either Borrower or by a subsidiary guarantor. The Company is not a borrower or a guarantor under the Credit Agreement.



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The Credit Agreement contains certain customary negative covenants, which include limitations on mergers and acquisitions, the sale of assets, liens, guarantees, investments, loans, capital expenditures, dividends, indebtedness, changes in the nature of business, transactions with affiliates, the creation of subsidiaries, changes in fiscal year and accounting practices, changes to governing documents, compliance with certain statutes, and prepayments of certain indebtedness. The Credit Agreement also contains certain customary affirmative covenants (including periodic reporting obligations) and events of default, including upon a change of control. The Credit Agreement requires compliance with certain financial covenants providing for maintenance of specified liquidity, maintenance of a minimum fixed charge coverage ratio and/or maintenance of a maximum leverage ratio following the occurrence of certain events and/or prior to taking certain actions, all as more fully described in the Credit Agreement. The Company believes that the Credit Agreement provides greater financial flexibility to the Company and the Borrowers and may enhance their ability to consummate one or several larger and/or more attractive acquisitions and should provide our clients and/or potential clients with greater confidence in the Company's and the Borrowers' liquidity. During the quarter ended January 31, 2015, the Company did not meet the criteria that would cause its financial covenants to be applicable. As of January 31, 2016 and July 31, 2015, the Company did not have any balance outstanding on the PNC Bank credit facility.

**(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. We have been cooperating fully with the investigation. During the year ended July 31, 2015, we recorded a charge of \$1.6 million with respect to this matter. The Company believes that any resolution of this matter would include monetary penalties and other relief within the SEC's authority. There can be no assurance that we will be able to reach a settlement with the SEC or that the amount of monetary penalties agreed in any settlement will not exceed the accrued conditions of any potential settlement.

On June 8, 2015, Sean Peters, a former employee filed a complaint (the "Complaint") against ModusLink Corporation in Superior Court of California asserting claims, among other things, for failure to pay wages, breach of contract, wrongful retaliation and termination, fraud, violations of California Business and Professions Code Section 17200, et seq., and civil penalties pursuant to California Labor Code Sections and pursuant to the California Private Attorney General Act, seeking over \$1 million in damages, attorneys' fees and costs and penalties. ModusLink filed an Answer to the Complaint making a general denial and asserting various affirmative defenses. The parties are currently engaged in discovery. Although there can be no assurance as to the ultimate outcome, ModusLink believes it has meritorious defenses and intends to defend the allegations vigorously.

**(10) OTHER GAINS (LOSSES), NET**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January 31,</b>		<b>January 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>			
Foreign currency exchange gain (losses)	\$ (179)	\$ 1,726	\$ (753)	\$ 2,430
Gains (losses) on disposal of assets	(284)	29	972	29
Gains (losses) on Trading Securities	1,115	(412)	(8,348)	2,100

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Other, net	(327)	(932)	21	(1,321)
	\$ 325	\$ 411	\$(8,108)	\$ 3,238

The Company recorded foreign exchange gains (losses) of approximately \$(0.2) million and \$1.7 million during the three months ended January 31, 2016 and 2015, respectively. For the three months ended January 31, 2016, the net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$0.4 million and \$0.2 million in the Asia and Europe, respectively, offset by net gains of \$0.4 million in Corporate. For the three months ended January 31, 2015, the net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately \$0.3 million, \$0.3 million and \$1.1 million in the Americas, e-Business and Europe, respectively.

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During the three months ended January 31, 2016 and 2015, the Company recognized \$1.1 million and \$(0.4) million in net gains (losses) associated with its Trading Securities. During the three months ended January 31, 2016 and 2015, the Company recognized \$0.4 million and \$0.8 million, respectively, in net losses associated with short-term foreign currency contracts.

The Company recorded foreign exchange gains (losses) of approximately \$(0.8) million and \$2.4 million during the six months ended January 31, 2016 and 2015, respectively. For the six months ended January 31, 2016, the net gains primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$1.1 million and \$0.5 million in the Asia and Europe, respectively, offset by net gains of \$0.8 million in Corporate. For the six months ended January 31, 2015, the net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately \$0.4 million and \$2.1 million in the Americas and Europe, respectively.

During the six months ended January 31, 2016 and 2015, the Company recognized \$(8.3) million and \$2.1 million in net gains (losses) associated with its Trading Securities. During the six months ended January 31, 2016 and 2015, the Company recognized \$0.1 million and \$1.1 million, respectively, in net losses associated with short-term foreign currency contracts.

**(11) INCOME TAXES**

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the three months ended January 31, 2016, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of January 31, 2016 and July 31, 2015, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$1.1 million and \$3.9 million, respectively.

*Uncertain Tax Positions*

In accordance with the Company's accounting policy, interest related to unrecognized tax benefits is included in the provision of income taxes line of the Consolidated Statements of Operations. As of January 31, 2016 and July 31, 2015, 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, 2011 through July 31, 2015. To the extent the Company has tax attribute carryforwards, the tax year in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period. In addition, a number of tax years remain subject to examination by the appropriate government agencies for certain countries in the Europe and Asia regions. In Europe, the Company's 2009 through 2015 tax years remain subject to examination in most locations, while the Company's 2005 through 2015 tax years remain subject to examination in most Asia locations.

*Net Operating Loss*

The Company has certain deferred tax benefits, including those generated by net operating losses and certain other tax attributes (collectively, the Tax Benefits). The Company's ability to use these Tax Benefits could be substantially limited if it were to experience an ownership change, as defined under Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change would occur if there is a greater than 50-percentage

point change in ownership of securities by stockholders owning (or deemed to own under Section 382 of the Code) five percent or more of a corporation's securities over a rolling three-year period.

*Tax Benefit Preservation Plan*

On October 17, 2011, the Company's Board of Directors adopted a Tax Benefit Preservation Plan between the Company and American Stock Transfer & Trust Company, LLC, as rights agent (as amended from time to time, the Tax Plan). The Tax Plan reduces the likelihood that changes in the Company's investor base would have the unintended effect of limiting the Company's use of its Tax Benefits. The Tax Plan is intended to require any person acquiring shares of the Company's securities equal to or exceeding 4.99% of the Company's outstanding shares to obtain the approval of the Board of Directors. This would protect the Tax Benefits because changes in ownership by a person owning less than 4.99% of the Company's stock are considered and included in one or more public groups in the calculation of ownership change for purposes of Section 382 of the Code. On October 9, 2014, the Tax Plan was amended by our Board of Directors to extend the expiration of the Tax Plan until October 17, 2017. Following the stockholders' approval of the Protective Amendment (as described below) at the Company's 2014 Annual Meeting, the Tax Plan was further amended so that it expired at the close of business on December 31, 2014.

**Table of Contents***Protective Amendment*

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

The *Protective Amendment* limits certain transfers of the Company's common stock, to assist the Company in protecting the long-term value of its accumulated *NOLs*. The *Protective Amendment*'s transfer restrictions generally restrict any direct or indirect transfers of the common stock if the effect would be to increase the direct or indirect ownership of the common stock by any person (as defined in the *Protective Amendment*) from less than 4.99% to 4.99% or more of the common stock, or increase the percentage of the common stock owned directly or indirectly by a Person owning or deemed to own 4.99% or more of the common stock. Any direct or indirect transfer attempted in violation of the *Protective Amendment* will be void as of the date of the prohibited transfer as to the purported transferee. The Board of Directors of the Company has discretion to grant waivers to permit transfers otherwise restricted by the *Protective Amendment*. In accordance with the *Protective Amendment*, Handy & Harman (*HNH*), a related party, requested, and the Company granted *HNH* and its affiliates, a waiver under the *Protective Amendment* to permit their acquisition of up to 45% of the Company's outstanding shares of common stock in the aggregate (subject to proportionate adjustment, the *45% Cap*), in addition to acquisitions of common stock in connection with the exercise of certain warrants of the Company (the *Warrants*) held by Steel Partners Holdings L.P. (*SPH*), an affiliate of *HNH*, as well as a limited waiver under Section 203 of the Delaware General Corporation Law for this purpose. Notwithstanding the foregoing, *HNH* and its affiliates (and any group of which *HNH* or any of its affiliates is a member) are not permitted to acquire securities that would result in an ownership change of the Company for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, that would have the effect of impairing any of the Company's *NOLs*. The foregoing waiver was approved by the independent directors of the Company.

**(12) EARNINGS PER SHARE**

The Company calculates earnings per share in accordance with ASC Topic 260, *Earnings per Share*. The following table reconciles earnings per share for the three and six months ended January 31, 2016 and 2015:

	<b>Three Months</b>		<b>Six Months Ended</b>	
	<b>Ended</b>		<b>January 31,</b>	
	<b>January 31,</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>2016</b>			
	<b>(In thousands, except per share data)</b>			
Net loss	\$ (13,948)	\$ (1,556)	\$ (28,721)	\$ (1,334)
Weighted average common shares outstanding	51,879	51,646	52,039	51,888
Weighted average common equivalent shares arising from dilutive stock options and restricted stock				
Weighted average number of common and potential common shares	51,879	51,646	52,039	51,888

Basic net loss per share	\$ (0.27)	\$ (0.03)	\$ (0.55)	\$ (0.03)
Diluted net loss per share	\$ (0.27)	\$ (0.03)	\$ (0.55)	\$ (0.03)

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

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For the three and six months ended January 31, 2016, approximately 21.9 million and 21.8 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.

For the three and six months ended January 31, 2015, approximately 21.6 million and 21.2 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, 2016 and 2015, which was allocated as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January 31,</b>		<b>January 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>			
Cost of revenue	\$ 25	\$ 39	\$ 56	\$ 133
Selling, general and administrative	477	407	902	722
	\$ 502	\$ 446	\$ 958	\$ 855

At January 31, 2016, there was approximately \$2.0 million of total unrecognized compensation cost related to Stock Options issued under the Company's plans. At January 31, 2015, there was approximately \$1.1 million of total unrecognized compensation cost related to non-vested share-based compensation awards under the Company's plans.

**(14) COMPREHENSIVE INCOME (LOSS)**

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

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Accumulated other comprehensive items consist of the following:

	<b>Foreign currency items</b>	<b>Pension items</b>	<b>Unrealized gains (losses) on securities</b>	<b>Total</b>
	<b>(In thousands)</b>			
Accumulated other comprehensive income (loss) at July 31, 2015	\$ 7,670	\$ (4,206)	\$ 46	\$ 3,510
Foreign currency translation adjustment	(1,946)			(1,946)
Net unrealized holding gain on securities			31	31
Net current-period other comprehensive income (loss)	(1,946)		31	(1,915)
Accumulated other comprehensive income (loss) at January 31, 2016	\$ 5,724	\$ (4,206)	\$ 77	\$ 1,595

**(15) FOREIGN CURRENCY CONTRACTS**

During the quarter ended January 31, 2016, the Company entered into foreign currency forward contracts to manage the foreign currency risk associated with anticipated foreign currency denominated transactions. As of January 31, 2016, the aggregate notional amount of the Company's outstanding foreign currency forward contracts was \$7.3 million, as summarized below:

<b>Currency Contracts</b>	<b>January 31, 2016</b>	
	<b>Foreign Currency Amount</b>	<b>Notional Contract Value in USD</b>
	<b>(In thousands)</b>	
Buy CNH	48,273	\$ 7,330

As of January 31, 2016, the fair value of the Company's short-term foreign currency contracts was \$0.1 million and is included in other current liabilities. These contracts are designed to hedge the Company's exposure to transactions denominated in a non-functional currency and are not accounted for as hedges under the accounting standards. Accordingly, changes in the fair value of these instruments are recognized in earnings during the period of change as a component of Other gains (losses), net. The contracts were classified within Level 2 of the fair value hierarchy. During the three and six months ended January 31, 2016, the Company recognized \$0.4 million and \$0.1 million in net losses associated with these contracts, respectively. During the three and six months ended January 31, 2015, the Company recognized \$0.8 million and \$1.1 million in net losses associated with these contracts, respectively.

**(16) SEGMENT INFORMATION**

The Company has four operating segments: Americas; Asia; Europe; and e-Business. Based on the information provided to the Company's chief operating decision-maker ( CODM ) for purposes of making decisions about allocating resources and assessing performance and quantitative thresholds, the Company has determined that it has four



reportable segments: Americas, Asia, Europe and e-Business. During the prior year, the Company had determined that it had three reportable segments: Americas; Asia; and Europe. e-Business was reported as a part of the All Other category in the prior year. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal and finance, which are not allocated to the Company's reportable segments. The Corporate-level balance sheet information includes cash and cash equivalents, trading securities, investments in affiliates, notes payables and other assets and liabilities which are not identifiable to the operations of the Company's operating segments. All significant intra-segment amounts have been eliminated.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January 31,</b>		<b>January 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>			
<b>Net revenue:</b>				
Americas	\$ 28,208	\$ 53,242	\$ 61,419	\$ 135,040
Asia	44,476	45,493	98,407	88,448
Europe	38,656	40,626	83,399	95,041
e-Business	8,626	8,949	17,830	17,225
	\$ 119,966	\$ 148,310	\$ 261,055	\$ 335,754
<b>Operating income (loss):</b>				
Americas	\$ (4,911)	\$ (139)	\$ (7,997)	\$ 1,479
Asia	(325)	4,677	3,046	8,030
Europe	(4,239)	(952)	(5,270)	(2,330)
e-Business	(397)	361	(901)	522
Total Segment operating income (loss)	(9,872)	3,947	(11,122)	7,701
Corporate-level activity	(1,791)	(3,301)	(3,348)	(5,908)
Total operating income (loss)	(11,663)	646	(14,470)	1,793
Total other expense	(2,338)	(1,853)	(13,454)	(1,629)
Income (loss) before income taxes	\$ (14,001)	\$ (1,207)	\$ (27,924)	\$ 164

	<b>January 31,</b>	<b>July 31,</b>
	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>	
<b>Total assets:</b>		
Americas	\$ 32,682	\$ 41,367
Asia	150,577	122,277
Europe	75,993	67,783
e-Business	47,210	35,512
Sub-total - segment assets	306,462	266,939
Corporate	158,896	179,563
	\$ 465,358	\$ 446,502

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

	<b>Three Months Ended January 31,</b>		<b>Six Months Ended January 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>			
Supply chain services	\$ 110,297	\$ 122,972	\$ 238,667	\$ 288,378
Aftermarket services	1,043	16,389	4,558	30,151
e-Business services	8,626	8,949	17,830	17,225
	\$ 119,966	\$ 148,310	\$ 261,055	\$ 335,754

As of January 31, 2016, approximately \$11.4 million, \$5.4 million, \$3.3 million and \$3.1 million of the Company's long-lived assets were located in the U.S.A., Netherlands, Ireland and China, respectively. As of July 31, 2015, approximately \$12.4 million, \$5.2 million, \$3.7 million and \$3.3 million of the Company's long-lived assets were located in the U.S.A., Netherlands, Ireland and China, respectively.

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For the three months ended January 31, 2016, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$30.1 million, \$37.5 million, \$16.9 million and \$18.7 million, respectively. For the three months ended January 31, 2015, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$54.3 million, \$37.3 million, \$14.8 million and \$23.1 million, respectively.

For the six months ended January 31, 2016, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$65.1 million, \$83.8 million, \$37.6 million and \$41.0 million, respectively. For the six months ended January 31, 2015, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$136.4 million, \$72.1 million, \$39.9 million and \$48.8 million, respectively.

### **(17) RELATED PARTY TRANSACTIONS**

On December 24, 2014, SP Corporate Services LLC ( "SP Corporate" ), an indirect wholly owned subsidiary of Steel Partners Holdings L.P. (a related party), entered into a Management Services Agreement (the "Management Services Agreement" ) with the Company. Pursuant to the Management Services Agreement, SP Corporate will provide the Company and its subsidiaries with the services of certain employees, including certain executive officers, and other corporate services. The Management Services Agreement was approved by a special committee of the Company's Board of Directors comprised entirely of independent directors (the "Related Party Transactions Committee" ). SP Corporate will be subject to the supervision and control of the Committee while performing its obligations under the Management Services Agreement. The Management Services Agreement provides that the Company will pay SP Corporate a fixed monthly fee of \$175,000 in consideration of the Services. The fees payable under the Management Services Agreement are subject to review and such adjustments as may be agreed upon by SP Corporate and the Company.

The Management Services Agreement was effective as of January 1, 2015 and was to continue through June 30, 2015. During the quarter ended July 31, 2015, the Company and SP Corporate entered into an amendment to extend the term of the Management Services Agreement through December 31, 2015, with such term renewing for successive one year periods unless and until terminated pursuant to the terms of the Management Services Agreement.

On March 10, 2016, the Company entered into an amendment to the Management Services Agreement between the Company and SPH Services, Inc. ( "SPH Services" ) modifying the services provided by SPH Services to the Company pursuant to the terms of the Amendment. Also on March 10, 2016, the Company entered into a Transfer Agreement with SPH Services pursuant to which the parties agreed to transfer to the Company certain individuals who provide corporate services to the Company. The Amendment to the Management Services Agreement and the Transfer Agreement were approved by the Related Party Transactions Committee.

### **(18) FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES**

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

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

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

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

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

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

The following tables presents the Company's financial assets measured at fair value on a recurring basis as of January 31, 2016 and July 31, 2015, classified by fair value hierarchy:

(In thousands)	Fair Value Measurements at Reporting Date Using			
	January 31, 2016	Level 1	Level 2	Level 3
<b>Assets:</b>				
Marketable equity securities	\$ 17,028	\$ 17,028	\$	\$
Marketable corporate bonds	10,954	10,954		
Money market funds	112,070	112,070		
<b>Liabilities:</b>				
Foreign currency contracts	118		118	

(In thousands)	Fair Value Measurements at Reporting Date Using			
	July 31, 2015	Level 1	Level 2	Level 3
<b>Assets:</b>				
Marketable equity securities	\$ 37,396	\$ 37,396	\$	\$
Marketable corporate bonds	41,320	41,320		
Money market funds	76,277	76,277		

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

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

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

The Company's only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were certain assets subject to long-lived asset impairment.

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

**Table of Contents***Fair Value of Financial Instruments*

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

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

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

	January 31, 2016		July 31, 2015		Fair Value Hierarchy
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Notes payable	\$ 80,337	\$ 73,375	\$ 77,864	\$ 88,188	Level 1

The fair value of our Notes payable represents the value at which our lenders could trade our debt within the financial markets, and does not represent the settlement value of these long-term debt liabilities to us. The fair value of the Notes payable could vary each period based on fluctuations in market interest rates, as well as changes to our credit ratings. The Notes payable are traded and their fair values are based upon traded prices as of the reporting dates.

**(19) SUBSEQUENT EVENTS**

On March 10, 2016, the Company entered into an amendment to the Management Services Agreement and a transfer agreement between the Company and SPH Services, Inc. See Note 17 (Related Party Transactions) for further details.



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

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended that involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words *believes*, *anticipates*, *plans*, *expects* and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed in Part II Item 1A below and elsewhere in this report and the risks discussed in the Company's Annual Report on Form 10-K filed with the SEC on October 14, 2015. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as required by applicable securities laws and regulations.

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

***Overview***

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

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

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

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As a large portion of our revenue comes from outsourcing services provided to clients such as retail products and consumer electronics companies, our operating performance has been and may continue to be adversely affected by declines in the overall performance of the technology sector and uncertainty affecting the world economy. In addition, the drop in consumer demand for products of certain clients has had and may continue to have the effect of reducing our volumes and adversely affecting our revenue 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 the three months ended January 31, 2016 and 2015, our gross margin percentage was 3.0% and 11.2%, respectively. Increased competition as well as industry consolidation and/or low demand for our clients' products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We generally manage margin and pricing pressures in several ways, including efforts to target new markets, expand our service offerings, improve the efficiency of our processes and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, consolidating facilities, and other actions designed to improve the productivity of our operations.

Historically, a limited number of key clients have accounted for a significant percentage of our revenue. For the three and six months ended January 31, 2016, our top ten clients collectively accounted for approximately 71% and 72% of our net revenue, respectively. 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, 2016, the Company reported net revenue of \$120.0 million, operating loss of \$11.7 million, loss before income taxes of \$14.0 million and net loss of \$13.9 million. For the six months ended January 31, 2016, the Company reported net revenue of \$261.1 million, operating loss of \$14.5 million, loss before income taxes of \$27.9 million and net loss of \$28.7 million. For the three months ended January 31, 2015, the Company reported net revenue of \$148.3 million, operating income of \$0.6 million, loss from continuing operations before income taxes of \$1.2 million and net loss of \$1.6 million. For the six months ended January 31, 2015, the Company reported net revenue of \$335.8 million, operating income of \$1.8 million, income from continuing operations before income taxes of \$0.2 million and net loss of \$1.3 million. At January 31, 2016, we had cash and cash equivalents of \$141.4 million, and working capital of \$176.8 million.

***Basis of Presentation***

The Company presents its financial information in accordance with accounting principles generally accepted in the United States, U.S. GAAP (or GAAP). The Company has four operating segments: Americas; Asia; Europe and e-Business. The Company has four reportable segments: Americas; Asia; Europe; and e-Business. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal and finance which are not allocated to the Company's reportable segments and administration

costs related to the Company's venture capital activities. The corporate-level balance sheet information includes cash and cash equivalents, trading securities, investments in affiliates, notes payable and other assets and liabilities which are not identifiable to the operations of the Company's operating segments.

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

**Table of Contents****Results of Operations**

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

**Net Revenue:**

	Three Months Ended January 31, 2016	As a % of Total Net Revenue	Three Months Ended January 31, 2015	As a % of Total Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 28,208	23.5%	\$ 53,242	35.9%	\$ (25,034)	(47.0%)
Asia	44,476	37.1%	45,493	30.7%	(1,017)	(2.2%)
Europe	38,656	32.2%	40,626	27.4%	(1,970)	(4.8%)
e-Business	8,626	7.2%	8,949	6.0%	(323)	(3.6%)
<b>Total</b>	<b>\$ 119,966</b>	<b>100.0%</b>	<b>\$ 148,310</b>	<b>100.0%</b>	<b>\$ (28,344)</b>	<b>(19.1%)</b>

Net revenue decreased by approximately \$28.3 million during the three months ended January 31, 2016, as compared to the same period in the prior year. This change in net revenue was primarily driven by decreased revenues from a consumer electronics client and an aftermarket services program related to the repair and refurbishment of mobile devices, partially offset by increases in revenue from other consumer electronics and consumer products clients. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the quarter ended January 31, 2016 as compared to the same period in the prior year. Revenue from new programs, which the Company defines as client programs that have been executed for fewer than 12 months, was \$21.2 million for the quarter ended January 31, 2016 as compared to \$17.9 million for the same period in the prior year. The increase in revenue from new programs was primarily due to new programs associated with the consumer electronics market.

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 of fiscal 2014 for one of their supply chain programs in Asia for which we were the primary service provider. While we were notified that the client intended to add an additional service provider to this program, we expect to continue to be the primary service provider. We expected 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. We have continued to seek to offset this loss of net revenue and associated operating income through increased revenues from other clients, new business opportunities, increases in productivity and ongoing cost reduction initiatives.

During the fourth quarter of fiscal year 2014, the Company was informed by a major client in the computing market that due to a further change in the client's supply chain strategy, a number of programs currently sourced with the Company primarily in the Americas would conclude by the first quarter of fiscal year 2015. Combined, these programs currently accounted for approximately \$150 million to \$160 million of annual net revenue and approximately \$2.5 million to \$3.5 million of operating income due to the historically low margins we have realized from these programs. We continue to seek to offset the loss of net revenue and the associated operating income through increased revenues from new client program wins along with increased business with existing clients,

ongoing productivity increases and cost reduction initiatives.

During the three months ended January 31, 2016, net revenue in the Americas region decreased by approximately \$25.0 million. This change in net revenue was primarily driven by decreased revenues from an aftermarket services program related to the repair and refurbishment of mobile devices and a consumer electronics client. Within the Asia region, the net revenue decrease of approximately \$1.0 million primarily resulted from lower revenues from programs in the consumer electronics and computing markets. Within the Europe region, net revenue decreased by approximately \$2.0 million primarily due to lower revenues from certain clients in the consumer electronics market, offset partially by an increase in revenues from other clients in the consumer electronics and consumer products industries. Net revenue for e-Business for the three months ended January 31, 2016, decrease by \$0.3 million primarily due to a decrease in revenue from a consumer electronics clients, partially offset by increase in revenue from consumer products client.

**Table of Contents****Cost of Revenue:**

	<b>Three Months Ended January 31, 2016</b>	<b>As a % of Segment Net Revenue</b>	<b>Three Months Ended January 31, 2015</b>	<b>As a % of Segment Net Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(In thousands)</b>					
Americas	\$ 29,851	105.8%	\$ 49,529	93.0%	\$ (19,678)	(39.7%)
Asia	39,814	89.5%	36,572	80.4%	3,242	8.9%
Europe	38,403	99.3%	37,732	92.9%	671	1.8%
e-Business	8,243	95.6%	7,883	88.1%	360	4.6%
<b>Total</b>	<b>\$ 116,311</b>	<b>97.0%</b>	<b>\$ 131,716</b>	<b>88.8%</b>	<b>\$ (15,405)</b>	<b>(11.7%)</b>

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, 2016 included materials procured on behalf of our clients of \$70.6 million, as compared to \$74.5 million for the same period in the prior year, a decrease of \$3.9 million. Total cost of revenue decreased by \$15.4 million for the three months ended January 31, 2016, as compared to the three months ended January 31, 2015, primarily due to lower labor and materials costs from an aftermarket services program related to the repair and refurbishment of mobile devices and a consumer electronics client. Gross margin percentage for the second quarter of fiscal 2016 decreased to 3.0% from 11.2% in the prior year quarter, primarily as a result of lower volumes for clients in the computing and consumer electronics markets and an aftermarket services program related to the repair and refurbishment of mobile devices. For the three months ended January 31, 2016, the Company's gross margin percentages within the Americas, Asia, Europe and e-Business were -5.8%, 10.5%, 0.7% and 4.4% as compared to 7.0%, 19.6%, 7.1% and 11.9%, 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, 2016.

In the Americas, the 12.8 percentage point decrease in gross margin, from 7.0% to -5.8%, resulted from an unfavorable shift in volumes for an aftermarket services program related to the repair and refurbishment of mobile devices and a client in the consumer electronics market, which was not completely offset by a reduction in materials and labor costs. In Asia, the 9.1 percentage point decrease in gross margin, from 19.6% to 10.5%, was primarily the result of decline in volume from clients in the consumer electronics and computing markets and higher material costs for a consumer electronics client, partially offset by a lower decline in labor costs. In Europe, the 6.4 percentage point decrease in gross margin, from 7.1% to 0.7%, was attributable to an unfavorable revenue mix as well as unfavorable labor costs. The gross margin for e-Business was 4.4% for the three months ended January 31, 2016 as compared to 11.9% for the same period of the prior year. This decrease of 7.5 percentage points was due to increased labor costs associated with clients in the consumer products and consumer electronics industries.

**Selling, General and Administrative Expenses:**

	<b>Three Months Ended</b>	<b>As a % of Segment</b>	<b>Three Months Ended</b>	<b>As a %</b>	<b>\$ Change</b>	<b>% Change</b>
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	<b>January 31, 2016</b>	<b>Net Revenue</b>	<b>January 31, 2015</b>	<b>of Segment Net Revenue</b>		
					<b>(In thousands)</b>	
Americas	\$ 3,145	11.1%	\$ 3,374	6.3%	\$ (229)	(6.8%)
Asia	4,933	11.1%	4,104	9.0%	829	20.2%
Europe	4,128	10.7%	3,397	8.4%	731	21.5%
e-Business	776	9.0%	463	5.2%	313	67.6%
Sub-total	12,982	10.8%	11,338	7.6%	1,644	14.5%
Corporate-level activity	1,791		3,301		(1,510)	(45.7%)
<b>Total</b>	<b>\$ 14,773</b>	<b>12.3%</b>	<b>\$ 14,639</b>	<b>9.9%</b>	<b>\$ 134</b>	<b>0.9%</b>

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, 2016 increased by approximately \$0.1 million compared to the three-month period ended January 31, 2015, primarily as a result of the Company's ongoing restructuring efforts (\$1.1 million), offset by higher professional fees primarily associated with outsourced services (\$1.1 million). Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the quarter ended January 31, 2016.



**Table of Contents*****Amortization of Intangible Assets:***

	<b>Three Months Ended January 31, 2016</b>	<b>As a % of Segment Net Revenue</b>	<b>Three Months Ended January 31, 2015</b>	<b>As a % of Segment Net Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(In thousands)</b>					
Americas	\$	0.0%	\$ 26	0.0%	\$ (26)	(100.0%)
e-Business		0.0%	242	2.7%	(242)	(100.0%)
<b>Total</b>	<b>\$</b>	<b>0.0%</b>	<b>\$ 268</b>	<b>0.2%</b>	<b>\$ (268)</b>	<b>(100.0%)</b>

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisitions. The intangible assets were fully amortized as of April 30, 2015.

***Impairment of Long-Lived Assets:***

During the three months ended, January 31, 2016, the Company recorded an impairment charge of \$0.3 million to adjust the carrying value of its building in Kildare, Ireland to its estimated fair value.

***Restructuring, net:***

	<b>Three Months Ended January 31, 2016</b>	<b>As a % of Segment Net Revenue</b>	<b>Three Months Ended January 31, 2015</b>	<b>As a % of Segment Net Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(In thousands)</b>					
Americas	\$ 123	0.4%	\$ 452	0.8%	\$ (329)	(72.8%)
Asia	54	0.1%	140	0.3%	(86)	(61.4%)
Europe	59	0.2%	449	1.1%	(390)	(86.9%)
e-Business	4	0.0%		0.0%	4	0.0%
<b>Total</b>	<b>\$ 240</b>	<b>0.2%</b>	<b>\$ 1,041</b>	<b>0.7%</b>	<b>\$ (801)</b>	<b>(76.9%)</b>

The \$0.2 million restructuring charge recorded during the three months ended January 31, 2016 primarily consisted of \$0.1 million and \$0.1 million of contractual charges in the Americas and Europe, respectively.

The \$1.0 million restructuring charge recorded during the three months ended January 31, 2015 primarily consisted of \$0.4 million, \$0.1 million and \$0.5 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 72 employees in our global supply chain operations.

***Interest Income/Expense:***

During the three months ended January 31, 2016 and 2015, interest income was \$0.1 million and \$0.4 million, respectively. The decrease in interest income is attributable to the disposition of the Trading Securities during the current and prior quarters.

During the three months ended January 31, 2016 and 2015, interest expense totaled approximately \$2.8 million and \$2.6 million, respectively. The interest expense primarily relates to the Company's issuance of \$100 million of 5.25% Convertible Senior Notes during the third quarter of fiscal 2014.

**Table of Contents****Other Gains (Losses), net:**

The Company recorded foreign exchange losses of approximately \$0.2 million during the three months ended January 31, 2016. For the three months ended January 31, 2016, the net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$0.4 million and \$0.2 million in the Asia and Europe, respectively, offset by net gains of \$0.4 million in Corporate. The Company recorded foreign exchange gains of approximately \$1.7 million during the three months ended January 31, 2015. These net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately \$0.3 million, \$1.1 million and \$0.3 million in the Americas, Europe and the e-Business reporting segment, respectively.

During the three months ended January 31, 2016 and 2015, the Company recognized \$1.1 million and \$(0.4) million in net gains (losses) associated with its Trading Securities. In addition to this, during the three months ended January 31, 2016 and 2015, the Company recognized \$0.4 million and \$0.8 million in net losses, respectively, associated with short-term foreign currency contracts.

**Income Tax Expense:**

During the three months ended January 31, 2016, the Company recorded income tax expense of approximately \$0.2 million, as compared to income tax expense of \$0.5 million for the same period in the prior fiscal year. For the three months ended January 31, 2016 and 2015, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions. The reduction in income taxes was primarily driven by lower operating income.

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.

**Results of Operations**

*Six months ended January 31, 2016 compared to the six months ended January 31, 2015*

**Net Revenue:**

	<b>Six Months Ended January 31, 2016</b>	<b>As a % of Total Net Revenue</b>	<b>Six Months Ended January 31, 2015</b>	<b>As a % of Total Net Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(In thousands)</b>					
Americas	\$ 61,419	23.5%	\$ 135,040	40.2%	\$ (73,621)	(54.5%)
Asia	98,407	37.7%	88,448	26.3%	9,959	11.3%
Europe	83,399	31.9%	95,041	28.3%	(11,642)	(12.2%)
e-Business	17,830	6.9%	17,225	5.2%	605	3.5%
<b>Total</b>	<b>\$ 261,055</b>	<b>100.0%</b>	<b>\$ 335,754</b>	<b>100.0%</b>	<b>\$ (74,699)</b>	<b>(22.2%)</b>

Net revenue decreased by approximately \$74.7 million during the six months ended January 31, 2016, as compared to the same period in the prior year. This decrease was primarily a result of lower volumes from a major computing market client, an aftermarket services program related to the repair and refurbishment of mobile devices and a major consumer electronics client, partially offset by an increase in revenue from other clients in the consumer electronics and consumer products industries. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the six months ended January 31, 2016. Revenue from new programs, which the Company defines as client programs that have been executed for fewer than 12 months, was \$53.8 million during the six months ended January 31, 2016, as compared to \$30.9 million during the six months ended January 31, 2015. The increase in revenue from new programs was primarily due to the addition of client programs associated with consumer electronics markets. Base business is 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 of fiscal 2014 for one of their supply chain programs in Asia for which we were the primary service provider. While we were notified that the client intended to add an additional service provider to this program, we expect to continue to be the primary service provider. We expected 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. We have continued 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.

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

During the six months ended January 31, 2016, net revenue in the Americas region decreased by approximately \$73.6 million. This decrease occurred primarily as a result of lower volumes from a major computing market client, an aftermarket services program related to the repair and refurbishment of mobile devices and a large consumer electronics client. Within the Asia region, the net revenue increase of approximately \$10.0 million primarily resulted from higher revenues from clients in the consumer electronics market. Within the Europe region, net revenue decreased by approximately \$11.6 million primarily resulted from lower volumes from computing and consumer electronics markets clients, partially offset by increased revenue from other consumer electronics and consumer products clients. Net revenue for e-Business increased by approximately \$0.6 million, primarily due to higher revenues from consumer products and consumer electronics clients, partially offset by other clients in the consumer electronics industries.

**Cost of Revenue:**

	<b>Six Months Ended January 31, 2016</b>	<b>As a % of Segment Net Revenue</b>	<b>Six Months Ended January 31, 2015</b>	<b>As a % of Segment Net Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(In thousands)</b>					
Americas	\$ 62,259	101.4%	\$ 125,562	93.0%	\$ (63,303)	(50.4%)
Asia	85,036	86.4%	70,864	80.1%	14,172	20.0%
Europe	80,410	96.4%	88,700	93.3%	(8,290)	(9.3%)
e-Business	17,243	96.7%	15,196	88.2%	2,047	13.5%
<b>Total</b>	<b>\$ 244,948</b>	<b>93.8%</b>	<b>\$ 300,322</b>	<b>89.4%</b>	<b>\$ (55,374)</b>	<b>(18.4%)</b>

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, 2016 included materials procured on behalf of our clients of \$152.5 million, or 58.4% of consolidated net revenue, as compared to \$189.9 million, or 56.6% of consolidated net revenue for the same period in the prior year, a decrease of \$37.4 million. Total cost of revenue decreased by \$55.4 million for the six months ended January 31, 2016, as compared to the six months ended January 31, 2015, primarily due to the decline in cost of materials associated with a major computing market client and the reduction in labor costs primarily associated with an aftermarket services program related to the repair and refurbishment of mobile devices and a computing market client.

Gross margin decreased to 6.2% for the six months ended January 31, 2016, from 10.6% for the six months ended January 31, 2015, primarily as a result of reduction in revenue, partially offset by the reduction in labor costs. For the six months ended January 31, 2016, the Company's gross margin percentages within the Americas, Asia, Europe and e-Business were -1.4%, 13.6%, 3.6% and 3.3%, as compared to 7.0%, 19.9%, 6.7% and 11.8%, 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, 2016.

In the Americas, the 8.4 percentage point decrease in gross margin, from 7.0% to -1.4%, resulted from a decline in revenues, partially offset by less significant decline in labor costs. In Asia, the 6.3 percentage point decrease, from 19.9% to 13.6% was primarily the result of unfavorable revenue mix and higher material costs, partially offset by a lower decline in labor costs. In Europe, the 3.1 percentage point decrease in gross margin, from 6.7% to 3.6%, resulted from a decline in revenues, partially offset by less significant decline in labor costs. The gross margin for e-Business was 3.3% for the six months ended January 31, 2016 as compared to 11.8% for the same period of the prior year. This unfavorable decline of 8.5 percentage points was due to higher labor costs offset partially by the increase in revenues.

**Table of Contents*****Selling, General and Administrative Expenses:***

	<b>Six Months Ended January 31, 2016</b>	<b>As a % of Segment Net Revenue</b>	<b>Six Months Ended January 31, 2015</b>	<b>As a % of Segment Net Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(In thousands)</b>					
Americas	\$ 6,237	10.2%	\$ 7,081	5.2%	\$ (844)	(11.9%)
Asia	10,018	10.2%	8,909	10.1%	1,109	12.4%
Europe	7,938	9.5%	7,240	7.6%	698	9.6%
e-Business	1,484	8.3%	1,023	5.9%	461	45.1%
Sub-total	25,677	9.8%	24,253	7.2%	1,424	5.9%
Corporate-level activity	3,348		5,908		(2,560)	(43.3%)
<b>Total</b>	<b>\$ 29,025</b>	<b>11.1%</b>	<b>\$ 30,161</b>	<b>9.0%</b>	<b>\$ (1,136)</b>	<b>(3.8%)</b>

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, 2016 decreased by approximately \$1.1 million compared to the six-month period ended January 31, 2015, primarily as a result of reduced employee-related costs (\$0.9 million) related to restructuring, a reduction in depreciation expense (\$0.8 million), offset by higher professional fees (\$0.7 million) primarily associated with outsourced services. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the six months ended January 31, 2016.

***Amortization of Intangible Assets:***

	<b>Six Months Ended January 31, 2016</b>	<b>As a % of Segment Net Revenue</b>	<b>Six Months Ended January 31, 2015</b>	<b>As a % of Segment Net Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(In thousands)</b>					
Americas	\$	0.0%	\$ 52	0.0%	\$ (52)	(100.0%)
e-Business		0.0%	484	2.8%	(484)	(100.0%)
<b>Total</b>	<b>\$</b>	<b>0.0%</b>	<b>\$ 536</b>	<b>0.2%</b>	<b>\$ (536)</b>	<b>(100.0%)</b>

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisitions. The intangible assets were fully amortized as of April 30, 2015.

***Impairment of Long-Lived Assets:***

During the six months ended, January 31, 2016, the Company recorded an impairment charge of \$0.3 million to adjust the carrying value of its building in Kildare, Ireland to its estimated fair value.



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

	<b>Six Months Ended January 31, 2016</b>	<b>As a % of Segment Net Revenue</b>	<b>Six Months Ended January 31, 2015</b>	<b>As a % of Segment Net Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(In thousands)</b>					
Americas	\$ 920	1.5%	\$ 866	0.6%	\$ 54	6.2%
Asia	307	0.3%	645	0.7%	(338)	(52.4%)
Europe	16	0.0%	1,431	1.5%	(1,415)	(98.9%)
e-Business	4	0.0%		0.0%	4	0.0%
<b>Total</b>	<b>\$ 1,247</b>	<b>0.5%</b>	<b>\$ 2,942</b>	<b>0.9%</b>	<b>\$ (1,695)</b>	<b>(57.6%)</b>

The \$1.2 million restructuring charge recorded during the six months ended January 31, 2016 primarily consisted of \$0.8 million and \$0.2 million of employee-related costs in the Americas and Asia, respectively, related to the workforce reduction of 58 employees in our global supply chain.

The \$2.9 million restructuring charge recorded during the six months ended January 31, 2015 primarily consisted of approximately \$0.9 million, \$0.7 million, and \$1.4 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 165 employees in our global supply chain operations.

**Interest Income/Expense:**

During the six months ended January 31, 2016 and 2015, interest income was \$0.2 million and \$0.4 million, respectively. The decrease in interest income is attributable to the disposition of the Trading Securities during the current and prior quarters.

During the six months ended January 31, 2016 and 2015, interest expense totaled approximately \$5.5 million and \$5.3 million, respectively. During the current year, the interest expense primarily relates to the Company's issuance of \$100 million of 5.25% Convertible Senior Notes during the third quarter of fiscal 2014.

**Other Gains (Losses), net:**

The Company recorded foreign exchange gains (losses) of approximately \$(0.8) million and \$2.4 million during the six months ended January 31, 2016 and 2015, respectively. For the six months ended January 31, 2016, the net gains primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$1.1 million and \$0.5 million in the Asia and Europe, respectively, offset by net gains of \$0.8 million in Corporate. For the six months ended January 31, 2015, the net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately \$0.4 million and \$2.1 million in the Americas and Europe, respectively.

During the six months ended January 31, 2016 and 2015, the Company recognized \$(8.3) million and \$2.1 million in net gains (losses) associated with its Trading Securities. During the six months ended January 31, 2016, the Company recognized \$1.0 million in net gains associated with the sale of assets. During the six months ended January 31, 2016

and 2015, the Company recognized \$0.1 million and \$1.1 million, respectively, in net losses associated with short-term foreign currency contracts.

***Income Tax Expense:***

During the six months ended January 31, 2016, the Company recorded income tax expense of approximately \$1.1 million. During the six months ended January 31, 2015, the Company recorded income tax expense of approximately \$1.7 million. For the six months ended January 31, 2016 and 2015, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions. The reduction in income taxes was primarily driven by lower operating income.

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.

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**Table of Contents****Liquidity and Capital Resources**

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of our securities and borrowings from lending institutions. As of January 31, 2016, the Company's primary sources of liquidity consisted of cash and cash equivalents of \$141.4 million and Trading Securities of \$28.0 million. As of January 31, 2016, the Company had approximately \$22.5 million of cash and cash equivalents held outside of the U.S. Of this amount, approximately \$4.0 million is considered permanently invested due to certain restrictions under local laws, and \$18.5 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 reinvestment. Foreign withholding taxes may range from 0% to 10% on any repatriated funds.

On June 30, 2014, two direct and wholly owned subsidiaries of the Company (the Borrowers) entered into a revolving credit and security agreement (the Credit Agreement), as borrowers and guarantors, with PNC Bank and National Association, as lender and as agent, respectively. The Credit Agreement has a five (5) year term which expires on June 30, 2019. It includes a maximum credit commitment of \$50.0 million, is available for letters of credit (with a sublimit of \$5.0 million) and has a \$20.0 million uncommitted accordion feature. The actual maximum credit available under the Credit Agreement varies from time to time and is determined by calculating the applicable borrowing base, which is based upon applicable percentages of the values of eligible accounts receivable and eligible inventory minus reserves determined by the Agent (including other reserves that the Agent may establish from time to time in its permitted discretion), all as specified in the Credit Agreement. As of January 31, 2016 and July 31, 2015, the Company did not have any balance outstanding on the PNC Bank credit facility.

On March 18, 2014, the Company entered into an indenture (the Indenture) with Wells Fargo Bank, National Association, as trustee (the Trustee), relating to the Company's issuance of \$100 million of 5.25% Convertible Senior Notes (the Notes). The Notes bear interest at the rate of 5.25% per year, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2014. The Notes will mature on March 1, 2019, unless earlier repurchased by the Company or converted by the holder in accordance with their terms prior to such maturity date. Holders of the Notes may convert all or any portion of their notes, in multiples of \$1,000 principal amount, at their option at any time prior to the close of business or the business day immediately preceding the maturity date. Each \$1,000 of principal of the Notes will initially be convertible into 166.2593 shares of our common stock, which is equivalent to an initial conversion price of approximately \$6.01 per share, subject to adjustment upon the occurrence of certain events, or, if the Company obtains the required consent from its stockholders, into shares of the Company's common stock, cash or a combination of cash and shares of its common stock, at the Company's election. If the Company has received stockholder approval, and it elects to settle conversions through the payment of cash or payment or delivery of a combination of cash and shares, the Company's conversion obligation will be based on the volume weighted average prices (VWAP) of its common stock for each VWAP trading day in a 40 VWAP trading day observation period. The Notes and any of the shares of common stock issuable upon conversion have not been registered. Holders will have the right to require the Company to repurchase their Notes, at a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, upon the occurrence of certain fundamental changes, subject to certain conditions. No fundamental changes occurred during the six months ended January 31, 2016. The Company may not redeem the Notes prior to the mandatory date, and no sinking fund is provided for the Notes. The Company will have the right to elect to cause the mandatory conversion of the Notes in whole, and not in part, at any time on or after March 6, 2017, if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company notifies holders of its election to mandatorily convert the Notes, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company notifies holders of its election to mandatorily convert the

notes. As of January 31, 2016 and July 31, 2015, the net carrying value of the Notes was \$80.3 million and \$77.9 million, respectively.

Consolidated working capital was \$176.8 million at January 31, 2016, compared with \$202.3 million at July 31, 2015. Included in working capital were cash and cash equivalents of \$141.4 million at January 31, 2016 and \$119.4 million at July 31, 2015.

Net cash used in operating activities was \$19.0 million for the six months ended January 31, 2016, as compared to net cash provided by operating activities of \$19.5 million in the prior year period. The \$38.4 million decrease in net cash provided by (used in) operating activities as compared with the same period in the prior year was primarily due lower revenues from a major computing market client, an aftermarket services program related to the repair and refurbishment of mobile devices and a consumer electronics client as well as a payment of a deposit to a vendor associated with consumer electronics clients. During the six months ended January 31, 2016, non-cash items within net cash provided by operating activities included depreciation expense of \$3.9 million, amortization of deferred financing costs of \$0.4 million, accretion of debt discount of \$2.5 million, impairment of long-lived assets of \$0.3 million, share-based compensation of \$1.0 million and non-operating gains, net, of \$8.1 million. During the six months ended January 31, 2015, non-cash items within net cash provided by operating activities included depreciation expense of \$4.7 million, amortization of intangible assets of \$0.5 million, amortization of deferred financing costs of \$0.3 million, accretion of debt discount of \$2.1 million, share-based compensation of \$0.9 million, non-operating losses, net, of \$3.2 million and gains of affiliates and impairment of \$0.2 million.

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

Investing activities provided (used) cash of \$42.0 million and \$(72.8) million during the six months ended January 31, 2016 and 2015, respectively. The \$42.0 million of cash provided in investing activities during the six months ended January 31, 2016 was comprised of \$43.7 million in proceeds from the sale of Trading Securities, \$1.3 million in proceeds from the disposition of a property Europe, offset by \$3.2 million in capital expenditures. The \$72.8 million of cash used in investing activities during the six months ended January 31, 2015 was comprised of \$69.2 million in purchase of Trading Securities and \$3.8 million in capital expenditures.

Financing activities used cash of \$0.2 million during the six months ended January 31, 2016 and primarily related to payments on capital lease obligations. Cash flows used in financing activities of continuing operations during the six months ended January 31, 2015 primarily related to the \$4.5 million in net repayments for the Company's revolving line of credit.

The Company believes it has access to adequate resources to meet its needs for normal operating costs, capital expenditures, mandatory debt redemptions and working capital for its existing business for at least the next twelve months. These resources include cash and cash equivalents, Trading Securities, the PNC Credit Agreement noted above and cash provided by operating activities. In order to obtain funding for strategic initiatives, which may include capital expenditures, acquisitions, we may seek to raise additional funds through divestitures, public or private equity offerings, debt financings, or other means. In addition as part of our strategic initiatives, our management may seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise if we believe that it is in our best interests. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

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

### ***Off-Balance Sheet Arrangements***

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

### ***Contractual Obligations***

A summary of the Company's contractual obligations is included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2015. The Company's contractual obligations and other commercial commitments did not change materially between July 31, 2015 and January 31, 2016. The Company's gross liability for unrecognized tax benefits and related accrued interest was approximately \$1.1 million as of January 31, 2016. The Company is unable to reasonably estimate the amount or timing of payments for the liability.

From time to time, the Company agrees to indemnify its clients in the ordinary course of business. Typically, the Company agrees to indemnify its clients for losses caused by the Company. As of January 31, 2016, 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 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; 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

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operations. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. However, because these estimates inherently involve judgments and uncertainties, there can be no assurance that actual results will not differ materially from those estimates.

During the three months ended January 31, 2016, we believe that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2015.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

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

#### ***Interest Rate Risk***

As of January 31, 2016 and July 31, 2015, the Company did not have any outstanding indebtedness related to the PNC Bank credit facility.

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

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

#### ***Investment Risk***

We are exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. As of January 31, 2016, the Company had \$28.0 million in investments in trading securities. Had the market price of such securities been 10% lower at January 31, 2016, the aggregate value of such securities may have been \$2.8 million lower.

#### ***Foreign Currency Risk***

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

contracts, to minimize the transaction exposure that results from such fluctuations.

During the quarter ended January 31, 2016, the Company entered into foreign currency forward contracts to manage the foreign currency risk associated with anticipated foreign currency denominated transactions. As of January 31, 2016 and 2015, the aggregate notional amount of the Company's outstanding foreign currency forward contracts was \$7.3 million and \$19.8 million, respectively. As of January 31, 2016, the fair value of the Company's short-term foreign currency contracts was \$0.1 million and is included in other current liabilities. These contracts are designed to hedge the Company's exposure to transactions denominated in a non-functional currency and are not accounted for as hedges under the accounting standards. Accordingly, changes in the fair value of these instruments are recognized in earnings during the period of change as a component of Other gains (losses), net. The contracts were classified within Level 2 of the fair value hierarchy. During the six months ended January 31, 2016 and 2015, the Company recognized \$0.1 million and \$1.1 million in net losses associated with these contracts, respectively.

Revenues from our foreign operating segments accounted for approximately 69.6% and 54.6% of total revenues during the six months ended January 31, 2016 and 2015, respectively. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.



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

The conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income (loss). For the three months ended January 31, 2016 and 2015, we recorded a foreign currency translation loss of approximately \$1.1 million and \$4.5 million, respectively. For the six months ended January 31, 2016 and 2015, we recorded a foreign currency translation loss of approximately \$1.9 million and \$7.2 million, respectively, which is recorded within accumulated other comprehensive income in stockholders' equity in our condensed consolidated balance sheet. In addition, certain of our subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the relative exchange rates between the currencies result in remeasurement gains or losses at each balance sheet date and transaction gains or losses upon settlement. For the six months ended January 31, 2016 and 2015, we recorded net realized and unrealized foreign currency transaction and remeasurement gains (losses) of approximately \$(0.8) million and \$2.4 million, respectively, which are recorded in Other gains (losses), net in our condensed consolidated statements of operations.

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

**Item 4. Controls and Procedures.***Disclosure Controls and Procedures.*

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

*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, 2016 that have materially affected, or are reasonably likely to

materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

On February 15, 2012, the staff of the Division of Enforcement of the SEC initiated with the Company an informal inquiry, and later a formal action, regarding the Company's treatment of rebates associated with volume discounts provided by vendors. We have been cooperating fully with the investigation. During the year ended July 31, 2015, we recorded a charge of \$1.6 million with respect to this matter. The Company believes that any resolution of this matter would include monetary penalties and other relief within the SEC's authority. There can be no assurance that we will be able to reach a settlement with the SEC or that the amount of monetary penalties agreed in any settlement will not exceed the accrued conditions of any potential settlement.

On June 8, 2015, Sean Peters, a former employee filed a complaint (the "Complaint") against ModusLink Corporation in Superior Court of California asserting claims, among other things, for failure to pay wages, breach of contract, wrongful retaliation and termination, fraud, violations of California Business and Professions Code Section 17200, et seq., and civil penalties pursuant to California Labor Code Sections and pursuant to the California Private Attorney General Act, seeking over \$1 million in damages, attorneys' fees and costs and penalties. ModusLink filed an Answer to the Complaint making a general denial and asserting various affirmative defenses. The parties are currently engaged in discovery. Although there can be no assurance as to the ultimate outcome, ModusLink believes it has meritorious defenses and intends to defend the allegations vigorously.

**Item 1A. Risk Factors.**

There have not been any material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended July 31, 2015. In addition to the other information set forth in this report, you should carefully consider the risks and uncertainties discussed in Part I, Item 1A. Risk Factors discussed in our Annual Report, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be not material also may materially and adversely affect our business, financial condition and/or operating results.

**Item 6. Exhibits.**

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

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**SIGNATURE**

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

MODUSLINK GLOBAL SOLUTIONS, INC.

Date: March 11, 2016

By: **/S/ JOSEPH B. SHERK**  
**JOSEPH B. SHERK**  
**Principal Financial Officer**  
**and Principal Accounting Officer**

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**EXHIBIT INDEX**

- 10.1\* Fourth Amended and Restated Director Compensation Plan
- 10.2\* Second Amendment to Management Services Agreement
- 10.3\* Transfer Agreement
- 31.1\* Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of the Principal Financial Officer and Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1± Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2± Certification of the Principal Financial Officer and Principal Accounting Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101\* Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Unaudited Condensed Consolidated Balance Sheets as of January 31, 2016 and July 31, 2015, (ii) Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months ended January 31, 2016 and 2015, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months ended January 31, 2016 and 2015 (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months ended January 31, 2016 and 2015 and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

\* Filed herewith.

± Furnished herewith.