ModusLink Global Solutions Inc
Form 10-Q
March 12, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2013

OR

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

For the transition period from _________ to _________

Commission File Number 001-35319

ModusLink Global Solutions, Inc.

(Exact name of registrant as specified in its charter)

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

(781) 663-5000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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	x
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 x

As of March 4, 2013, there were 43,990,600 shares issued and outstanding of the registrant s Common Stock, $.01 par value per share.

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MODUSLINK GLOBAL SOLUTIONS, INC.

FORM 10-Q

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share and share amounts)

(Unaudited)

	January 31, 2013	July 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,790	$ 52,369
Available-for-sale securities	14	131
Accounts receivable, trade, net of allowance for doubtful accounts of $85 and $344, at January 31, 2013 and July 31, 2012, respectively	151,573	148,931
Inventories, net	83,053	83,990
Prepaid expenses and other current assets	11,807	10,466
Current assets of discontinued operations	283	
Total current assets	298,520	295,887
Property and equipment, net	38,193	40,772
Investments in affiliates	9,556	10,803
Goodwill	3,058	3,058
Other intangible assets, net	2,327	2,897
Other assets	6,671	5,465
Total assets	$ 358,325	$ 358,882
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current installments of obligations under capital leases	$ 99	$ 73
Accounts payable	125,472	110,520
Current portion of accrued restructuring	4,575	1,724
Accrued expenses	40,422	41,753
Other current liabilities	27,411	26,778
Current liabilities of discontinued operations	1,471	1,528
Total current liabilities	199,450	182,376
Obligations under capital leases, less current installments	40	69
Other long-term liabilities	11,037	11,012
Non-current liabilities of discontinued operations	101	293
Stockholders equity:		
Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding shares at January 31, 2013 and July 31, 2012		
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; 43,970,878 issued and outstanding shares at January 31, 2013; 43,926,622 issued and outstanding shares at July 31, 2012	440	439
Additional paid-in capital	7,390,784	7,390,027
Accumulated deficit	(7,259,983)	(7,236,775)
Accumulated other comprehensive income	16,456	11,441
Total stockholders equity	147,697	165,132

Total liabilities and stockholders equity	$	358,325	$	358,882

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 January 31,		Six Months Ended January 31,	
	2013	2012 (As Restated)	2013	2012 (As Restated)
Net revenue	$ 203,436	$ 169,435	$ 400,487	$ 367,265
Cost of revenue	183,158	154,026	361,585	326,084
Gross profit	20,278	15,409	38,902	41,181
Operating expenses				
Selling, general and administrative	23,721	23,181	47,862	44,330
Amortization of intangible assets	285	285	569	569
Restructuring, net	4,798	4,463	6,268	5,219
Total operating expenses	28,804	27,929	54,699	50,118
Operating loss	(8,526)	(12,520)	(15,797)	(8,937)
Other income (expense):				
Interest income	88	122	166	244
Interest expense	(101)	(98)	(199)	(189)
Other gains (losses), net	(978)	825	(2,299)	2,052
Equity in losses of affiliates and impairments	(2,226)	(290)	(2,536)	(717)
Total other income (expense)	(3,217)	559	(4,868)	1,390
Loss from continuing operations before income taxes	(11,743)	(11,961)	(20,665)	(7,547)
Income tax expense	674	380	1,583	2,251
Loss from continuing operations	(12,417)	(12,341)	(22,248)	(9,798)
Discontinued operations, net of income taxes:				
Loss from discontinued operations, net of gain of $709 on the disposition of TFL during the three and six months ended January 31, 2013	(133)	(535)	(960)	(1,933)
Net loss	$ (12,550)	$ (12,876)	$ (23,208)	$ (11,731)
Basic and diluted loss per share:				
Loss from continuing operations	$ (0.29)	$ (0.29)	$ (0.51)	$ (0.23)
Loss from discontinued operations		(0.01)	(0.02)	(0.04)
Net loss	$ (0.29)	$ (0.30)	$ (0.53)	$ (0.27)
Shares used in computing basic earnings per share:	43,654	43,434	43,629	43,367

Shares used in computing diluted earnings per share:	43,654	43,434	43,629	43,367

See accompanying notes to unaudited condensed consolidated financial statements

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(Unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2013	2012 (As Restated)	2013	2012 (As Restated)
Net loss	$ (12,550)	$ (12,876)	$ (23,208)	$ (11,731)
Other comprehensive income (loss):				
Foreign currency translation adjustment	1,757	(4,435)	5,016	(7,362)
Net unrealized holding gain (loss) on securities		(1)	(1)	1
	1,757	(4,436)	5,015	(7,361)
Comprehensive loss	$ (10,793)	$ (17,312)	$ (18,193)	$ (19,092)

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)

	Six Months Ended January 31, 2013	Six Months Ended January 31, 2012 (As Restated)
Cash flows from operating activities of continuing operations:		
Net loss	$ (23,208)	$ (11,731)
Loss from discontinued operations	(960)	(1,933)
Loss from continuing operations	(22,248)	(9,798)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation	6,849	7,224
Amortization of intangible assets	569	569
Loss on the sale of available-for-sale securities	19	
Share-based compensation	915	1,880
Non-operating (gains) losses, net	2,299	(2,052)
Equity in losses of affiliates and impairments	2,536	717
Changes in operating assets and liabilities:		
Trade accounts receivable, net	1,622	(13,825)
Inventories	2,026	(21,019)
Prepaid expenses and other current assets	(1,138)	(787)
Accounts payable, accrued restructuring and accrued expenses	12,184	29,748
Refundable and accrued income taxes, net	(2,605)	(576)
Other assets and liabilities	736	2,964
Net cash provided by (used in) operating activities of continuing operations	3,764	(4,955)
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(3,570)	(4,765)
Change in restricted cash	(691)	
Proceeds from the disposition of the TFL business, net of $81 of transaction costs	1,269	
Proceeds from the sale of available-for-sale securities	96	
Proceeds from the sale of equity investments in affiliates	174	8
Investments in affiliates	(1,450)	(1,052)
Net cash used in investing activities of continuing operations	(4,172)	(5,809)
Cash flows from financing activities of continuing operations:		
Repayments on capital lease obligations	(30)	(59)
Proceeds from issuance of common stock		61
Repurchase of common stock	(152)	(175)
Net cash used in financing activities of continuing operations	(182)	(173)
Cash flows from discontinued operations:		
Operating cash flows	(1,357)	(771)

Investing cash flows		(184)
Net cash used in discontinued operations	(1,357)	(955)
Net effect of exchange rate changes on cash and cash equivalents	1,448	(3,715)
Net decrease in cash and cash equivalents	(499)	(15,607)
Cash and cash equivalents at beginning of period	52,369	111,225
Cash held in discontinued operations at end of period	(80)	
Cash and cash equivalents at end of period	$ 51,790	$ 95,618

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, luxury goods 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 unaudited 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 condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2012, which are contained in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on January 11, 2013. The results for the three and six months ended January 31, 2013 are not necessarily indicative of the results to be expected for the full fiscal year.

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

As discussed further in Note 5, *Discontinued Operations,* the Company sold substantially all of the assets of the Tech For Less LLC (TFL) business on January 11, 2013. The Company determined that the sale of TFL qualified for discontinued operations presentation in the accompanying condensed consolidated financial statements. Accordingly, the remaining assets and liabilities of TFL, and the results of its operations and its cash flows have been reclassified to discontinued operations in each respective financial statement.

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, 2013, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed. See Note 18, *Subsequent Events,* for further details.

(3) RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

On February 15, 2012, the Division of Enforcement of the Securities and Exchange Commission (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 (the SEC Inquiry).

In providing its supply chain services, the Company enters into contracts with its clients that employ various arrangements for pricing, including fixed-price, cost-plus, or cost-pass-through pricing models. Although the specifications and terms of the pricing model can frequently vary from client to client, and among the products or programs for a single client, under a fixed-price model, the Company and its client will typically negotiate a fixed unit price for the supply chain services to be provided, where the level of costs incurred by the Company does not affect the contractual, negotiated price. Under a cost-plus model, the client agrees to pay the costs incurred by the Company to purchase materials, together with an agreed-to percentage mark-up on those costs. Finally, with regard to a cost-pass-through model, materials and other costs incurred by the Company are passed through directly to the client, and the client agrees to pay a separate negotiated fee for specified services provided by the Company. Arrangements with clients can include the use of any one or more of these pricing models, depending on the client program involved and the location

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

from which the Company services the client. In addition, continued price and cost discussions with clients through the course of the relationship can sometimes result in an accepted change in the pricing model applied. Consequently, the implication and interpretation of the cost and price terms applicable to any particular client relationship can vary across client programs and products, at different periods in time, and based on the locations from which a client may be serviced.

In the course of the Company s contractual relationships, clients often demand lower costs over time, typically attributable to efficiency gains in service offerings. The Company accomplishes this in various ways, including for example, by shifting production to lower cost regions, redesigning clients packaging and supply chains, and strategically sourcing materials. As part of these services and in the normal course of its business, the Company purchases certain commodity types of materials, including, but not limited to, print, packaging, media and labels, to meet client requirements, often in quantities well in excess of those required by any one client. As a result, the Company receives improved pricing on materials. Frequently, the Company also received and retained rebates based on aggregate volumes of purchases or other criteria established by the vendor. The retention of rebates produced a positive impact on the Company s revenue, and, therefore, also positively affected the Company s profitability and operating income.

As previously reported in the Company s Annual Report on Form 10-K for the year ended July 31, 2012 (the 2012 Annual Report), the Audit Committee, in consultation with management and the Board of Directors, concluded that the Company s previously issued financial statements for the fiscal years ended July 31, 2009 through 2011 and the first two quarters of fiscal year 2012, and selected unaudited financial data for fiscal years 2007 and 2008, should no longer be relied upon. Accordingly, the Company s consolidated financial statements for the fiscal years ended July 31, 2011, 2010 and 2009 were restated, as filed with the SEC on January 11, 2013 as part of the Company s 2012 Annual Report. The Company s 2012 Annual Report also included restated condensed consolidated statements of operations for the three months ended January 31, 2012.

Several principal adjustments were made to historic financial statements as a result of the restatement. 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), which decreased working capital in the period. The Company believes that it may not ultimately be required to pay the accrued pricing liabilities, due in part to the nature of the interactions with its clients. When, and to the extent that, the Company is able to conclude that the accrued pricing liabilities have been extinguished for less than the amounts accrued, the Company will record the difference as other income. In the course of its business with certain clients, the Company has received releases of claims from such clients which have resulted in the Company concluding that the accrued pricing liabilities for those clients have been extinguished. For the three and six months ended January 31, 2013 and 2012, no accrued pricing liabilities were extinguished. The remaining accrued pricing liabilities at January 31, 2013 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.

In addition to the errors described above, the restated financial statements included other adjustments to correct certain immaterial errors for previously unrecorded adjustments identified in audits of prior years financial statements (the other adjustments). The previously unrecorded audit adjustments were recorded as part of the restatement process although none of these adjustments is individually material.

In the tables below, the column labeled Restatement Pricing Adjustments sets forth the pricing adjustments and the column labeled Restatement Other Adjustments sets forth the other adjustments.

The restatement adjustments decreased revenues by $0.3 million and $0.5 million, respectively, for the three and six month periods ended January, 31 2012, decreased net income by $0.3 million in both periods, and decreased basic and diluted earnings per share by $0.01 in both periods.

In the unaudited condensed consolidated statements of operations below, the As Previously Reported columns have been adjusted to reclassify the results of operations associated with the disposed TFL business into discontinued operations.

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The effects of the restatement adjustments on the Company s unaudited condensed consolidated statements of operations for the three months ended January 31, 2012 are as follows:

	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	As Restated
Net revenue	$ 169,699	$ (496)	$ 232	$ 169,435
Cost of revenue	154,029		(3)	154,026
Gross profit	15,670	(496)	235	15,409
Operating expenses				
Selling, general and administrative	23,181			23,181
Amortization of intangible assets	285			285
Restructuring, net	4,463			4,463
Total operating expenses	27,929			27,929
Operating income (loss)	(12,259)	(496)	235	(12,520)
Other income (expense):				
Interest income	122			122
Interest expense	(96)		(2)	(98)
Other gains, net	825			825
Equity in losses of affiliates and impairments	(290)			(290)
Total other income (expense)	561		(2)	559
Income (loss) from continuing operations before income taxes	(11,698)	(496)	233	(11,961)
Income tax expense	380			380
Income (loss) from continuing operations	(12,078)	(496)	233	(12,341)
Discontinued operations, net of income taxes:				
Loss from discontinued operations	(535)			(535)
Net income (loss)	$ (12,613)	$ (496)	$ 233	$ (12,876)
Basic and diluted loss per share:				
Loss from continuing operations	$ (0.28)	$ (0.01)	$	$ (0.29)
Loss from discontinued operations	(0.01)			(0.01)
Net loss	$ (0.29)	$ (0.01)	$	$ (0.30)
Shares used in computing basic earnings per share:	43,434			43,434

Shares used in computing diluted earnings per share:	43,434	43,434

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The effects of the restatement adjustments on the Company s unaudited condensed consolidated statements of operations for the six months ended January 31, 2012 are as follows:

	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	As Restated
Net revenue	$ 367,772	$ (913)	$ 406	$ 367,265
Cost of revenue	326,308		(224)	326,084
Gross profit	41,464	(913)	630	41,181
Operating expenses				
Selling, general and administrative	44,330			44,330
Amortization of intangible assets	569			569
Restructuring, net	5,219			5,219
Total operating expenses	50,118			50,118
Operating income (loss)	(8,654)	(913)	630	(8,937)
Other income (expense):				
Interest income	244			244
Interest expense	(185)		(4)	(189)
Other gains, net	2,052			2,052
Equity in losses of affiliates and impairments	(717)			(717)
Total other income (expense)	1,394		(4)	1,390
Income (loss) from continuing operations before income taxes	(7,260)	(913)	626	(7,547)
Income tax expense	2,251			2,251
Income (loss) from continuing operations	(9,511)	(913)	626	(9,798)
Discontinued operations, net of income taxes:				
Loss from discontinued operations	(1,933)			(1,933)
Net income (loss)	$ (11,444)	$ (913)	$ 626	$ (11,731)
Basic and diluted earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.22)	$ (0.02)	$ 0.01	$ (0.23)
Loss from discontinued operations	(0.04)			(0.04)
Net income (loss)	$ (0.26)	$ (0.02)	$ 0.01	$ (0.27)
Shares used in computing basic earnings per share:	43,367			43,367

Shares used in computing diluted earnings per share:	43,367	43,367

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The effects of the restatement adjustments on the Company s unaudited condensed consolidated statement of cash flows for the six months ended January 31, 2012 are as follows:

	Six Months Ended January 31, 2012 (Unaudited)			
	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	As Restated
Cash flows from operating activities of continuing operations:				
Net income (loss)	$ (11,444)	$ (913)	$ 626	$ (11,731)
Loss from discontinued operations	(1,933)			(1,933)
Income (loss) from continuing operations	(9,511)	(913)	626	(9,798)
Adjustments to reconcile income (loss) from continuing operations to net cash used in operating activities of continuing operations:				
Depreciation	7,196		28	7,224
Amortization of intangible assets	569			569
Share-based compensation	1,880			1,880
Non-operating (gains) losses, net	(2,052)			(2,052)
Equity in losses of affiliates and impairments	717			717
Changes in operating assets and liabilities:				
Trade accounts receivable, net	(13,825)			(13,825)
Inventories	(20,800)		(219)	(21,019)
Prepaid expenses and other current assets	(787)			(787)
Accounts payable, accrued restructuring and accrued expenses	29,748			29,748
Refundable and accrued income taxes, net	(576)			(576)
Other assets and liabilities	2,457	913	(406)	2,964
Net cash used in operating activities of continuing operations	(4,984)		29	(4,955)
Cash flows from investing activities of continuing operations:				
Additions to property and equipment	(4,765)			(4,765)
Proceeds from the sale of equity investments in affiliates	8			8
Investments in affiliates	(1,052)			(1,052)
Net cash used in investing activities of continuing operations	(5,809)			(5,809)
Cash flows from financing activities of continuing operations:				
Repayments on capital lease obligations	(30)		(29)	(59)
Proceeds from issuance of common stock	61			61
Repurchase of common stock	(175)			(175)
Net cash used in financing activities of continuing operations	(144)		(29)	(173)

Cash flows from discontinued operations:				
Operating cash flows	(771)			(771)
Investing cash flows	(184)			(184)
Net cash used in discontinued operations	(955)			(955)
Net effect of exchange rate changes on cash and cash equivalents	(3,715)			(3,715)
Net increase in cash and cash equivalents	(15,607)			(15,607)
Cash and cash equivalents at beginning of period	111,225			111,225
Cash and cash equivalents at end of period	$ 95,618	$	$	$ 95,618

(4) RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends Accounting Standards Codification (ASC) 220, Comprehensive Income. The amended guidance requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Additionally, entities are required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amended guidance does not change the current requirements for reporting net income or other comprehensive income. The amendment is effective prospectively for annual periods, and interim periods within those annual periods, beginning after December 15, 2012. The Company believes adoption of this new guidance will not have a material impact on the Company s financial statements as these updates have an impact on presentation only.

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(5) DISCONTINUED OPERATIONS

On January 11, 2013, the Company sold substantially all of the assets of the TFL business to Encore Holdings, LLC (Encore). The consideration paid by Encore for the assets was $1.6 million, which consisted of a gross purchase price of $1.9 million less certain adjustments. As of January 31, 2013, the Company has received $1.4 million of the purchase price, with the remaining $0.2 million to be received upon settlement of certain post-closing adjustments. In conjunction with the asset sale agreement, the Company entered into a transition support agreement with Encore to provide certain administrative services for a period of 90 days from the closing date of the transaction. The Company does not expect to generate significant continuing cash flows from the transition support agreement. In addition, the Company will not have significant continuing involvement in the disposed business upon completion of the transition support agreement.

The Company s other discontinued operations relate to an ongoing lease obligation associated with a previously vacated facility. During both the three and six month periods ended January 31, 2013, the Company recorded a loss of $0.2 million associated with the net present value accretion on future lease payments. The Company recorded $0.7 million of income in both the three and six month period ended January 31, 2012 primarily due to the execution of a sublease for the vacated facility, which resulted in an adjustment to the Company s estimated future minimum lease payments recoverable through sublease receipts.

The following table reflects the components of Loss from discontinued operations :

	Three Months Ended January 31,		Six Months Ended January 31,	
	2013	2012	2013	2012
	(in thousands)			
Income (loss) from the operations of TFL	$ (656)	$ (1,205)	$ (1,487)	$ (2,603)
Gain on the disposition of the TFL business	709		709	
Income (loss) from other discontinued operations	(186)	670	(182)	670
	$ (133)	$ (535)	$ (960)	$ (1,933)

(6) GOODWILL

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

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

The carrying amount of goodwill allocated to the Company s reportable segments is as follows:

Americas	Asia	Europe

				All Other	Consolidated Total
			(in thousands)		
Balance as of July 31, 2012					
Goodwill	$ 94,477	$ 73,948	$ 30,108	$ 5,857	$ 204,390
Accumulated impairment charges	(94,477)	(73,948)	(30,108)	(2,799)	(201,332)
	$	$	$	$ 3,058	$ 3,058
Balance as of January 31, 2013					
Goodwill	$ 94,477	$ 73,948	$ 30,108	$ 5,857	$ 204,390
Accumulated impairment charges	(94,477)	(73,948)	(30,108)	(2,799)	(201,332)
	$	$	$	$ 3,058	$ 3,058

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(7) SHARE-BASED PAYMENTS

The following table summarizes share-based compensation expense related to employee stock options, employee stock purchases and nonvested shares for the three and six months ended January 31, 2013 and 2012, which was allocated as follows:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2013	2012	2013	2012
	(In thousands)			
Cost of revenue	$ 61	$ 80	$ 111	$ 176
Selling, general and administrative	361	918	804	1,704
	$ 422	$ 998	$ 915	$ 1,880

During the three months ended January 31, 2013, 171,248 nonvested shares were granted to members of the Company s Board of Directors at a fair value of $3.27 per share, as part of their fiscal year 2013 compensation. The fair value of nonvested shares is determined based on the market price of the Company s common stock on the grant date.

(8) OTHER GAINS (LOSSES), NET

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2013	2012	2013	2012
	(in thousands)			
Foreign currency exchange gain (losses)	$ (1,034)	$ 798	$ (2,060)	$ 1,995
Gain (loss) on disposal of assets	(58)	80	(62)	105
Other, net	114	(53)	(177)	(48)
	$ (978)	$ 825	$ (2,299)	$ 2,052

The Company recorded foreign exchange losses of approximately $1.0 million during the three months ended January 31, 2013, as compared to foreign exchange gains of approximately $0.8 million during the three months ended January 31, 2012. For the three months ended January 31, 2013, the net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately $1.0 million and $0.6 million in Europe and Asia, respectively, offset by realized and unrealized gains of approximately $0.6 million in the Americas. For the three months ended January 31, 2012, the net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately $0.8 million and $0.4 million in Europe and Asia, respectively, offset by net losses of $0.4 million in the Americas.

The Company recorded foreign exchange losses of approximately $2.1 million during the six months ended January 31, 2013, as compared to foreign exchange gains of approximately $2.0 million during the six months ended January 31, 2012. For the six months ended January 31, 2013, these net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately $2.3 million and $1.1 million in Europe and Asia, respectively, offset by realized and unrealized gains of approximately $1.3 million in the Americas. For the six months ended January 31, 2012, the net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately $1.6 million and $0.7 million in Europe and Asia, respectively, offset by net losses of $0.3 million in the Americas.

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(9) OTHER CURRENT LIABILITIES

The following table reflects the components of Other Current Liabilities :

	January 31, 2013	July 31, 2012
	(In thousands)	
Accrued pricing liabilities	$ 20,691	$ 20,397
Other	6,720	6,381
	$ 27,411	$ 26,778

As of January 31, 2013 and July 31, 2012, the Company recorded accrued pricing liabilities of approximately $20.7 million and $20.4 million, respectively. These liabilities related to the equivalent reduction of revenue where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract. The remaining accrued pricing liabilities at January 31, 2013 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.

(10) RESTRUCTURING, NET

The following table summarizes the activity in the restructuring accrual for the three and six months ended January 31, 2013:

	Employee Related Expenses	Contractual Obligations	Total
		(In thousands)	
Accrued restructuring balance at July 31, 2012	$ 626	$ 1,098	$ 1,724
Restructuring charges	1,483		1,483
Restructuring adjustments	32	(45)	(13)
Cash paid	(991)	(309)	(1,300)
Non-cash adjustments	15	(10)	5
Restructuring charges, discontinued operations	9		9
Cash paid, discontinued operations	(157)		(157)
Accrued restructuring balance at October 31, 2012	$ 1,017	$ 734	$ 1,751
Restructuring charges	4,838		4,838
Restructuring adjustments	(34)	(6)	(40)
Cash paid	(1,587)	(313)	(1,900)
Non-cash adjustments	22		22
Restructuring charges, discontinued operations	34	112	146
Cash paid, discontinued operations		(97)	(97)

Reclassification of restructuring charges of discontinued operations	(130)	(15)	(145)
Accrued restructuring balance at January 31, 2013	$ 4,160	$ 415	$ 4,575

It is expected that the payments of employee-related charges will be substantially completed during the fiscal year ended July 31, 2013. The remaining contractual obligations primarily relate to facility lease obligations for vacant space resulting from the previous restructuring activities of the Company. The Company anticipates that contractual obligations will be substantially fulfilled by April 2013.

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

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The net restructuring charges for the three months ended January 31, 2013 and 2012 would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2013	2012	2013	2012
	(In thousands)			
Cost of revenue	$ 3,529	$ 3,710	$ 4,298	$ 4,139
Selling, general and administrative	1,269	753	1,970	1,080
	$ 4,798	$ 4,463	$ 6,268	$ 5,219

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

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

During the three and six months ended January 31, 2012, the Company recorded net restructuring charges of approximately $4.5 million and $5.2 million, respectively. For the three months ended January 31, 2012, approximately $3.7 million related to a workforce reduction of 48 employees in Europe, $0.4 million related to a workforce reduction of 5 employees within the Company s IT organization, and $0.4 million related to certain contractual obligations in connection with the restructuring of a facility in the ModusLink PTS business.

In addition, during the first quarter of fiscal 2012, the Company recorded restructuring charges of approximately $0.2 million related to the workforce reduction of 9 employees in Raleigh, North Carolina and $0.5 million for the workforce reduction of 144 employees in China. Also, approximately $0.1 million of restructuring charges related to certain contractual obligations in connection with the restructuring of facilities in Raleigh, North Carolina.

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

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The following table summarizes the restructuring accrual by reportable segment and the Corporate-level activity for the three and six months ended January 31, 2013:

	Americas	Asia	Europe	TFL	All Other	Corporate-level Activity	Consolidated Total
				(In thousands)			
Accrued restructuring balance at July 31, 2012	$ 1,086	$	$ 51	$ 244	$ 343	$	$ 1,724
Restructuring charges	306	664	486		27		1,483
Restructuring adjustments	20		(32)		(1)		(13)
Cash paid	(400)	(474)	(343)		(83)		(1,300)
Non-cash adjustments			5				5
Restructuring charges, discontinued operations				9			9
Cash paid, discontinued operations				(157)			(157)
Accrued restructuring balance at October 31, 2012	$ 1,012	$ 190	$ 167	$ 96	$ 286	$	$ 1,751
Restructuring charges	1,046	1,288	1,677		827		4,838
Restructuring adjustments	(6)	(34)					(40)
Cash paid	(601)	(678)	(208)		(413)		(1,900)
Non-cash adjustments		(8)	30				22
Restructuring charges, discontinued operations				146			146
Cash paid, discontinued operations				(97)			(97)
Reclassification of restructuring charges of discontinued operations				(145)			(145)
Accrued restructuring balance at January 31, 2013	$ 1,451	$ 758	$ 1,666	$	$ 700	$	$ 4,575

(11) SEGMENT INFORMATION

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

Management evaluates segment performance based on segment net revenue, operating income (loss) and adjusted operating income , which is defined as the operating income (loss) excluding net charges related to depreciation, long-lived asset impairment, restructuring, amortization of intangible assets and share-based compensation. These items are excluded because they may be considered to be of a non-operational or non-cash nature. Historically, the Company has recorded significant impairment and restructuring charges and therefore management uses adjusted operating income to assist in evaluating the performance of the Company s core operations.

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

	Three Months Ended January 31, 2013	Three Months Ended January 31, 2012 (As Restated)	Six Months Ended January 31, 2013	Six Months Ended January 31, 2012 (As Restated)
	(In thousands)			
Net revenue:				
Americas	$ 67,731	$ 59,498	$ 131,641	$ 129,009
Asia	60,356	51,124	116,731	111,863
Europe	67,818	50,710	136,748	108,316
All Other	7,531	8,103	15,367	18,077
	$ 203,436	$ 169,435	$ 400,487	$ 367,265
Operating income (loss):				
Americas	$ (445)	$ (3,084)	$ (2,470)	$ (3,204)
Asia	5,586	4,513	12,756	13,805
Europe	(3,902)	(7,177)	(7,750)	(8,865)
All Other	(954)	(79)	(536)	777
Total Segment operating income	285	(5,827)	2,000	2,513
Corporate-level activity	(8,811)	(6,693)	(17,797)	(11,450)
Total operating loss	$ (8,526)	$ (12,520)	$ (15,797)	$ (8,937)
Adjusted operating income:				
Americas	$ 1,673	$ (1,272)	$ 1,073	$ 54
Asia	7,982	5,795	17,004	16,760
Europe	(1,198)	(2,225)	(3,206)	(2,521)
All Other	289	409	1,145	1,752
Total Segment Adjusted operating income	8,746	2,707	16,016	16,045
Corporate-level activity	(8,527)	(5,970)	(17,212)	(10,090)
Total Adjusted operating income (loss)	$ 219	$ (3,263)	$ (1,196)	$ 5,955
Adjusted operating income (loss)	$ 219	$ (3,263)	$ (1,196)	$ 5,955
Adjustments:				
Depreciation	(3,240)	(3,511)	(6,849)	(7,224)
Amortization of intangible assets	(285)	(285)	(569)	(569)
Share-based compensation	(422)	(998)	(915)	(1,880)
Restructuring, net	(4,798)	(4,463)	(6,268)	(5,219)
Operating loss	$ (8,526)	$ (12,520)	$ (15,797)	$ (8,937)

Other income (expense), net	(3,217)	559	(4,868)	1,390
Income tax expense	(674)	(380)	(1,583)	(2,251)
Loss from discontinued operations	(133)	(535)	(960)	(1,933)
Net loss	$ (12,550)	$ (12,876)	$ (23,208)	$ (11,731)

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	January 31, 2013	July 31, 2012
	(In thousands)	
Total assets of continuing operations:		
Americas	$ 92,334	$ 101,931
Asia	105,594	111,660
Europe	116,850	105,472
TFL		2,750
All Other	21,008	20,758
Sub-total	335,786	342,571
Corporate-level activity	22,256	16,311
	$ 358,042	$ 358,882

As of January 31, 2013, approximately 54%, 21% and 25% of the Company s long-lived assets were located in the Americas, Asia and Europe, respectively. As of July 31, 2012, approximately 63%, 18% and 19%, of the Company s long-lived assets were located in the Americas, Asia and Europe, respectively. As of January 31, 2013, approximately, $9.2 million, $5.3 million, $4.8 million, $3.7 million, and $2.5 million of the Company s long-lived assets were located in Singapore, Ireland, China, the Netherlands, and the Czech Republic, respectively. As of July 31, 2012, approximately, $9.2 million, $4.8 million, $3.3 million, $2.3 million and $3.4 million of the Company s long-lived assets were located in Singapore, Ireland, China, the Netherlands, and the Czech Republic, respectively.

During the three and six months ended January 31, 2013, the Company generated revenue of approximately $44.7 million and $83.1 million, respectively, in China and $25.0 million and $47.5 million, respectively, in the Netherlands. During the three and six months ended January 31, 2012, the Company generated revenue of approximately $34.5 million and $75.7 million, respectively, in China and $26.4 million and $58.8 million, respectively, in the Netherlands.

(12) EARNINGS PER SHARE

The Company calculates earnings per share in accordance with ASC Topic 260, Earnings per Share and ASC Topic 260-10, formerly FASB Staff Position EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. Under ASC Topic 260-10, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. All of the Company s nonvested shares are considered participating securities because they contain non-forfeitable rights to dividends. However, holders of nonvested shares do not have an obligation to fund losses, and therefore, are only allocated a portion of the earnings for the earnings per share calculation when the Company reports net income.

Under the two-class method, net income is reduced by the amount of dividends declared in the period for each class of common stock and participating securities. The remaining undistributed earnings are then allocated to common stock and participating securities as if all of the net income for the period had been distributed. Basic earnings per share excludes dilution and is calculated by dividing net income allocable to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income allocable to common shares by the weighted-average number of common shares for the period, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per share for the three and six months ended January 31, 2013 and 2012.

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	Three Months Ended January 31,		Six Months Ended January 31,	
	2013	2012	2013	2012
	(In thousands)			
BASIC				
Loss from continuing operations	$ (12,417)	$ (12,341)	$ (22,248)	$ (9,798)
Loss from discontinued operations	(133)	(535)	(960)	(1,933)
Net loss available for basic common shares	$ (12,550)	$ (12,876)	$ (23,208)	$ (11,731)
Weighted average common shares outstanding	43,654	43,434	43,629	43,367
Basic net loss per common share from continuing operations	$ (0.29)	$ (0.29)	$ (0.51)	$ (0.23)
Basic net loss per common share from discontinued operations		(0.01)	(0.02)	(0.04)
	$ (0.29)	$ (0.30)	$ (0.53)	$ (0.27)
DILUTED				
Loss from continuing operations	$ (12,417)	$ (12,341)	$ (22,248)	$ (9,798)
Loss from discontinued operations	(133)	(535)	(960)	(1,933)
Net loss available for diluted common shares	$ (12,550)	$ (12,876)	$ (23,208)	$ (11,731)
Weighted average common shares outstanding	43,654	43,434	43,629	43,367
Weighted average common equivalent shares arising from dilutive stock options				
Weighted average number of common and potential common shares	43,654	43,434	43,629	43,367
Diluted net loss per common share from continuing operations	$ (0.29)	$ (0.29)	$ (0.51)	$ (0.23)
Diluted net loss per common share from discontinued operations		(0.01)	(0.02)	(0.04)
	$ (0.29)	$ (0.30)	$ (0.53)	$ (0.27)

For the three and six months ended January 31, 2013, approximately 2.2 million and 2.3 million, respectively, common stock equivalent shares were excluded from the denominator in the calculation of diluted earnings per share as their inclusion would have been antidilutive.

For the three and six months ended January 31, 2012, approximately 2.9 million and 3.6 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) COMPREHENSIVE INCOME (LOSS)

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

Accumulated other comprehensive items consist of the following:

	January 31, 2013	July 31, 2012
	(In thousands)	
Cumulative foreign currency translation adjustment	$ 17,718	$ 12,702
Pension adjustments	(1,235)	(1,235)
Net unrealized holding losses on securities	(27)	(26)
Accumulated other comprehensive income	$ 16,456	$ 11,441

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(14) 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, consumer packaging, shipping boxes and labels, power cords and cables for client-owned electronic devices.

Inventories consisted of the following:

	January 31, 2013	July 31, 2012
	(In thousands)	
Raw materials	$ 59,062	$ 56,198
Work-in-process	2,022	2,154
Finished goods	21,969	25,638
	$ 83,053	$ 83,990

The Company values the inventory at the lower of cost or market. 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, 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 customer 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.

(15) CONTINGENCIES

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

Following the June 11, 2012 announcement of the pending restatement (the June 11, 2012 Announcement), shareholders of the Company commenced three purported class actions in the United States District Court for the District of Massachusetts arising from the circumstances described in the June 11, 2012 Announcement (the Securities Actions), entitled, respectively:

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

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

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

Each of the Securities Actions purports to be brought on behalf of those persons who purchased shares of the Company between September 26, 2007 through and including June 8, 2012 (the Class Period) and alleges that failure to timely disclose the issues raised in the June 11, 2012 Announcement during the Class Period rendered defendants public statements concerning the Company s financial condition materially false and misleading in violation of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder. On February 11, 2013, following the Company s restatement, plaintiffs filed a consolidated amended complaint in the Securities Action. The Company moved to dismiss the amended complaint on March 11, 2013.

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On July 13, 2012, a fourth shareholder commenced a purported derivative action in United States District Court for the District of Massachusetts against the Company (as nominal defendants), and certain of its current and former directors and officers, entitled, *Samuel Montini, Derivatively On Behalf Of ModusLink Global Solutions, Inc. v. Joseph C. Lawler, Steven G. Crane, Francis J. Jules, Virginia G. Breen, Michael J. Mardy, Edward E. Lucente, Jeffrey J. Fenton, Joseph M. O Donnell, William R. McLennan, Thomas H. Johnson, And Anthony J. Bay, Defendants, And ModusLink Global Solutions, Inc., A Delaware Corporation, Nominal Defendant*, Case 1:12-CV-11296-DJC and on July 31, 2012, a fifth shareholder commenced a purported derivative action in United States District Court for the District of Massachusetts against the Company (as nominal defendants), and certain of its current and former directors and officers, entitled, *Edward Tansey, Derivatively On Behalf Of ModusLink Global Solutions, Inc. v. Joseph C. Lawler, Steven G. Crane, Francis J. Jules, Virginia G. Breen, Michael J. Mardy, Edward E. Lucente, Jeffrey J. Fenton, Joseph M. O Donnell, William R. McLennan, Thomas H. Johnson, And Anthony J. Bay, Defendants, And ModusLink Global Solutions, Inc., A Delaware Corporation, Nominal Defendant*, Civil Action No. 12-CV-11399 (DJC) (collectively, the Derivative Actions). The Derivative Actions further assert that as a result of the individual defendants alleged actions and course of conduct, the Company is now the subject of the Securities Actions and will incur related expenses and a possible judgment against it. These litigation matters also arise from the issues raised in the June 11, 2012 Announcement and allege that the individual defendants breached their duty of loyalty to the Company by allowing defendants to cause, or by themselves causing, the Company to make improper statements regarding its business prospects and/or by failing to prevent the other Individual Defendants from taking such purportedly illegal actions. The plaintiffs are scheduled to file a consolidated amended complaint in the Derivative Actions on March 4, 2013, and the Company is to file its initial response to that complaint on April 3, 2013.

Although there can be no assurance as to the ultimate outcome, the Company believes it has meritorious defenses, will deny liability, and intends to defend this litigation vigorously.

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

(16) INCOME TAXES

For the three and six months ended January 31, 2013 and 2012, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using enacted rates in those jurisdictions. The Company operates in multiple taxing jurisdictions, both within and outside of the United States. As of January 31, 2013 and July 31, 2012, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately $1.3 million for both periods.

In accordance with the Company s accounting policy, interest related to unrecognized tax benefits is included in the provision of income taxes line of the Consolidated Statement of Operations. As of January 31, 2013 and July 31, 2012, the Company had recorded liabilities for interest expense related to uncertain tax positions in the amount of $62 thousand and $78 thousand respectively. 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 expects that approximately $0.2 million of unrecognized tax benefits will reverse in the next twelve months. The Company is subject to U.S. federal income tax and various state, local and international income taxes in numerous jurisdictions. The federal and state tax returns are generally subject to tax examinations for the tax years ended July 31, 2009 through July 31, 2012. To the extent the Company has tax attribute carryforwards, the tax year in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period. In addition, a number of tax years remain subject to examination by the appropriate government agencies for certain countries in the Europe and Asia regions. In Europe, the Company s 2006 through 2012 tax years remain subject to examination in most locations, while the Company s 2002 through 2012 tax years remain subject to examination in most Asia locations.

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

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Accordingly, 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 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 not included in the calculation of ownership change for purposes of Section 382 of the Code.

(17) @VENTURES INVESTMENTS

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

During the three and six months ended January 31, 2013, approximately $0.9 million and $1.5 million was invested by @Ventures in privately held companies, respectively. The Company invested approximately $1.1 million in privately held companies during the six months ended January 31, 2012. This investment occurred during the first quarter of fiscal year 2012 and no additional investments were made during the second quarter of fiscal year 2012. At January 31, 2013 and July 31, 2012, the Company s carrying value of investments in privately held companies was approximately $9.6 million and $10.8 million, respectively. During the three months ended January 31, 2013, the Company recorded a $1.5 million impairment charge related to a certain investment in the @Ventures portfolio of companies. No impairment charges were recorded during the quarter ended October 31, 2012. The Company did not record material impairment charges during the three and six months ended January 31, 2012. Investments in which the Company s interest is less than 20% and which are not classified as available-for-sale securities are carried at the lower of cost or net realizable value unless it is determined that the Company exercises significant influence over the investee company, in which case the equity method of accounting is used. For those investments in which the Company s voting interest is between 20% and 50%, the equity method of accounting is generally used. Under this method, the investment balance, originally recorded at cost, is adjusted to recognize the Company s share of net earnings or losses of the investee company as they occur, limited to the extent of the Company s investment in, advances to and commitments for the investee. These adjustments are reflected in Equity in losses of affiliates and impairments in the Company s Consolidated Statement of Operations.

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

(18) SUBSEQUENT EVENTS

On February 11, 2013, the Company and Steel Partners Holdings L.P. (Steel Holdings), an affiliate of Handy & Harman, Ltd. (HNH), reached an agreement regarding the sale and issuance of 7,500,000 shares of the Company s common stock at a price of $4.00 per share, resulting in a $30.0 million investment in the Company before fees and expenses, and warrants to purchase 2,000,000 shares of the Company s common stock at an exercise price of $5.00 per share (and the issuance of such shares upon exercise of such warrants) to Steel Holdings pursuant to the terms and subject to the conditions set forth in the investment agreement, dated February 11, 2013, by and between the Company and Steel Holdings. The agreement is subject to shareholder approval and other enumerated closing conditions.

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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 January 11, 2013. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis, judgment, belief or expectation only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

Restatement of Previously Issued Financial Statements

As previously reported in the Company s Annual Report on Form 10-K for the year ended July 31, 2012 (the 2012 Annual Report), the Audit Committee, in consultation with management and the Board of Directors, concluded that the Company s previously issued financial statements for the fiscal years ended July 31, 2009 through 2011 and the first two quarters of fiscal year 2012, and selected unaudited financial data for fiscal years 2007 and 2008, should no longer be relied upon. Accordingly, the Company s consolidated financial statements for the fiscal years ended July 31, 2011, 2010 and 2009 were restated, as filed with the SEC on January 11, 2013 as part of the Company s 2012 Annual Report. The Company s 2012 Annual Report also included restated condensed consolidated statements of operations for the three months ended January 31, 2012. The restatement adjustments reduced revenue and established a liability for the portion of vendor rebates and cost mark-ups that had not been aligned consistently with client contracts. In addition, the restated financial statements also include other adjustments to correct certain immaterial errors for previously unrecorded adjustments identified in audits of prior years financial statements. The previously unrecorded audit adjustments were recorded as part of the restatement process although none of these adjustments was individually material. These restatement adjustments, when combined with the other adjustments, decreased revenues by $0.3 million and $0.5 million, respectively, for the three and six month periods ended January, 31 2012, decreased net income by $0.3 million in both periods, and decreased basic and diluted earnings per share by $0.01 in both periods. For details on the effects of the restatement and other adjustments on certain line items within our previously reported condensed consolidated financial statements for the quarter ended January 31, 2012, please refer to Note 3, *Restatement of Previously Issued Financial Statements,* of the condensed consolidated financial statements.

Throughout the remainder of Management s Discussion and Analysis of Financial Condition and Results of Operations, all referenced amounts give effect to the restatement.

Overview

ModusLink Global Solutions, Inc. executes comprehensive supply chain and logistics services that improve clients revenue, cost, sustainability and customer experience objectives. ModusLink Global Solutions provides services to leading companies in consumer electronics, communications, computing, medical devices, software, luxury goods and retail. The Company s operations are supported by a global footprint that includes more than 30 sites in 15 countries across North America, Europe, and the Asia regions.

Management evaluates operating performance based on net revenue, operating income (loss), and net income (loss), and, across its segments, on the basis of adjusted operating income (loss), which is defined as operating income (loss) excluding net charges related to depreciation, amortization of intangible assets, impairment of goodwill and long-lived assets, share-based compensation, restructuring and other charges not related to our baseline operating results. See Note 11 of the accompanying notes to the condensed consolidated financial statements included in Item 1 above for segment information, including a reconciliation of adjusted operating income (loss) to net income (loss).

We have developed a long-term set of strategic initiatives and an operating plan focused on increasing both revenue and profitability. We view the continued development of our global operational infrastructure and footprint as a primary source of differentiation in the market place. We believe that by leveraging our global footprint, we will be able to optimize our clients supply chains using multi-facility, multi-geographic solutions.

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Our focus during fiscal year 2013 remains consistent with the continued execution against our long-term strategic plan, and the implementation of the following initiatives which are designed to achieve our long-term goals:

Drive sales growth through a combination of existing client penetration and targeting new markets. Historically, a significant portion of our revenue from our supply chain business has been generated from clients in the computing 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 computing and software markets, we have expanded our sales focus to include additional markets within technology, such as communications and consumer electronics, and outside of technology, such as medical devices. We believe these markets are experiencing 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.

Increase the value delivered to clients through service expansion. During fiscal year 2013, we have continued to focus on further developing our e-Business, repair services and certain other offerings, which we believe will increase the overall value of the supply chain solutions we deliver to our existing clients and to new clients. We expect that these services will enhance our gross margins and drive profitability. Furthermore, we believe that the addition of new services to existing clients will strengthen our relationship with clients, and further integrate us with their businesses.

Drive operational efficiencies throughout our organization. Our strategy is to 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 benefit from our global integrated business solution. We also reduce our operating costs while implementing operational efficiencies throughout the Company. We expect that our lean sigma continuous improvement program will drive further operational efficiencies in the future. The lean sigma continuous improvement program is aimed at reducing our overall costs, increasing efficiencies and improving capacity utilization. The program consists of standardized training for the Company s employees in the lean sigma fundamentals (which include six sigma and lean methodology approaches) including standard tools to support the identification and elimination of waste and variability and applying these methods to operational and administrative tasks. As noted, the training enables employees to identify and implement projects to improve efficiency, productivity and eliminate waste through ongoing improvement efforts. We believe this initiative will yield improved process standardization and operating efficiency gains, as well as lower our long-term operating costs.

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, demand for our clients products, the effect of product form factor changes, technology changes, revenue mix and demand for outsourcing services.

For the three months ended January 31, 2013, the Company reported net revenue of $203.4 million, operating loss of $8.5 million, loss from continuing operations before income taxes of $11.7 million, net loss of $12.6 million and a gross margin percentage of 10.0%. For the six months ended January 31, 2013, the Company reported net revenue of $400.5 million, operating loss of $15.8 million, loss from continuing operations before income taxes of $20.7 million, net loss of $23.2 million and a gross margin percentage of 9.7%. We currently conduct business in many countries including the Netherlands, Hungary, France, Ireland, Czech Republic, Singapore, Taiwan, China, Malaysia, Japan, Australia, India, and Mexico, in addition to our United States operations. At January 31, 2013, we had cash and cash equivalents and available-for-sale securities of $51.8 million, and working capital of $99.1 million.

As a large portion of our revenue comes from outsourcing services provided to clients such as hardware manufacturers, software publishers, telecommunications carriers, broadband and wireless service providers 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 the sustained economic 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 market for our services is 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. During the three and six months ended January 31, 2013, our gross margin percentage was 10.0% and 9.7%. Increased

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competition arising from 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 react to 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, establishing facilities closer to our clients or to our clients end markets to gain efficiencies, 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 six months ended January 31, 2013, sales to Hewlett-Packard accounted for approximately 27.0% of our consolidated net revenue. For the six months ended January 31, 2012, sales to Hewlett-Packard and Advanced Micro Devices accounted for approximately 33.0% and 10.2%, respectively, of our consolidated net revenue. We expect to continue to derive the vast majority of our operating revenue from sales to a small number of key clients. In general, we do not have any agreements which obligate any client to buy a minimum amount of services from us or designate us as an exclusive service provider. Consequently, our sales are 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.

Basis of Presentation

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

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

Results of Operations

Three months ended January 31, 2013 compared to the three months ended January 31, 2012

Net Revenue:

	Three Months Ended January 31, 2013	As a % of Total Net Revenue	Three Months Ended January 31, 2012	As a % of Total Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 67,731	33.3%	$ 59,498	35.1%	$ 8,233	13.8%
Asia	60,356	29.7%	51,124	30.2%	9,232	18.1%
Europe	67,818	33.3%	50,710	29.9%	17,108	33.7%
All Other	7,531	3.7%	8,103	4.8%	(572)	(7.1%)
Total	$ 203,436	100.0%	$ 169,435	100.0%	$ 34,001	20.1%

Net revenue increased by approximately $34.0 million during the three months ended January 31, 2013, as compared to the same period in the prior year. This increase was primarily a result of $30.5 million of revenue from new client programs (that is, programs the Company has been executing less than 12 months) and a $3.5 million net increase from higher volumes in certain existing client programs. Approximately $123.7 million of the net revenue for the three months ended January 31, 2013 related to the procurement and re-sale of materials on behalf of our clients as compared to $103.4 million for the three months ended January 31, 2012.

During the three months ended January 31, 2013, net revenue in the Americas region increased by approximately $8.2 million. This increase resulted primarily from higher order volumes from existing client programs and $2.9 million of revenue associated with a new client program. Within the Asia region, the net revenue increase of approximately $9.2 million resulted from higher order volumes from existing client programs. Within the Europe region, net revenue increased by approximately $17.1 million primarily due to certain new client programs resulting from these clients new product launches. Net revenue for e-Business decreased by approximately $0.6 million due to the expiration of a certain client program, partially offset by higher volumes from other clients.

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A significant portion of our client base operates in the technology sector, which is intensely competitive and very volatile. Our clients order volumes vary from quarter to quarter for a variety of reasons, including market acceptance of their new product introductions and overall demand for their products including seasonality factors. This business environment, and our mode of transacting business with our clients, does not lend itself to precise measurement of the amount and timing of future order volumes, and as a result, future consolidated and segment sales volumes and revenues could vary significantly from period to period. We sell primarily on a purchase order basis, rather than pursuant to contracts with minimum purchase requirements. These purchase orders are generally for quantities necessary to support near-term demand for our clients products.

Cost of Revenue:

	Three Months Ended January 31, 2013	As a % of Segment Net Revenue	Three Months Ended January 31, 2012	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 63,545	93.8%	$ 58,397	98.1%	$ 5,148	8.8%
Asia	47,784	79.2%	39,977	78.2%	7,807	19.5%
Europe	65,052	95.9%	48,687	96.0%	16,365	33.6%
All Other	6,777	90.0%	6,965	86.0%	(188)	(2.7%)
Total	$ 183,158	90.0%	$ 154,026	90.9%	$ 29,132	18.9%

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 increased by approximately $29.1 million for the three months ended January 31, 2013, as compared to the three months ended January 31, 2012. Gross margin for the first quarter of fiscal 2013 was 10.0% as compared to 9.1% in the prior year quarter. This increase is attributable to a favorable geographic, product and customer mix and favorable impact of the Company s cost reduction activities.

For the three months ended January 31, 2013, the Company s gross margin percentages within the Americas, Asia and Europe regions were 6.2%, 20.8% and 4.1%, as compared to 1.9%, 21.8% and 4.0%, respectively, for the same period of the prior year. The increase in gross margin within the Americas regions is primarily attributable to a favorable product and customer mix. The decrease in gross margin within the Asia region is primarily attributable to a pricing decrease associated with a certain client program. Gross margins in the Europe region were essentially unchanged as compared to the year-ago period.

As a result of the lower overall cost of delivering the Company s services in the Asia region, particularly China, we expect gross margin levels in Asia to continue to exceed those earned in the Americas and Europe regions. However, we expect that there will continue to be pressure on gross margin levels in Asia as the market, particularly China, matures.

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Selling, General and Administrative Expenses:

	Three Months Ended January 31, 2013	As a % of Segment Net Revenue	Three Months Ended January 31, 2012	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 3,554	5.2%	$ 3,654	6.1%	$ (100)	(2.7%)
Asia	5,733	9.5%	6,469	12.7%	(736)	(11.4%)
Europe	4,989	7.4%	5,414	10.7%	(425)	(7.9%)
All Other	635	8.4%	951	11.7%	(316)	(33.2%)
Sub-total	14,911	7.3%	16,488	9.7%	(1,577)	(9.6%)
Corporate-level activity	8,810		6,693		2,117	31.6%
Total	$ 23,721	11.7%	$ 23,181	13.7%	$ 540	2.3%

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense and marketing expenses. Selling, general and administrative expenses during the three months ended January 31, 2013 increased by approximately $0.5 million compared to the three-month period ended January 31, 2012, primarily as a result of a $1.5 million increase in audit, legal and other professional fees associated with the Company s Security and Exchange Commission inquiry and financial restatement process. This increase was partially offset by a $0.5 million decrease in marketing costs and a $0.6 million reduction in share-based compensation expense.

Amortization of Intangible Assets:

	Three Months Ended January 31, 2013	As a % of Segment Net Revenue	Three Months Ended January 31, 2012	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 38	0.1%	$ 38	0.1%	$	
Asia						
Europe						
All Other	247	3.3%	247	3.0%		
Total	$ 285	0.1%	$ 285	0.2%	$	

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

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Restructuring, net:

	Three Months Ended January 31, 2013	As a % of Segment Net Revenue	Three Months Ended January 31, 2012	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 1,040	1.5%	$ 488	0.8%	$ 552	113.1%
Asia	1,254	2.1%	181	0.4%	1,073	592.8%
Europe	1,677	2.5%	3,776	7.4%	(2,099)	(55.6%)
All Other	827	11.0%	18	0.2%	809	4494.4%
Sub-total	4,798	2.4%	4,463	2.6%	335	7.5%
Corporate-level activity						
Total	$ 4,798	2.4%	$ 4,463	2.6%	$ 335	7.5%

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

The $4.5 million restructuring charge recorded during the three months ended January 31, 2012 consisted of approximately $3.7 million related to the workforce reduction of 48 employees in Europe and $0.4 million for the workforce reduction of 5 employees within the Company s IT organization. In addition, the Company recorded $0.4 million of restructuring charges related to certain contractual obligations in connection with the restructuring of a facility in the ModusLink PTS business.

Interest Income/Expense:

During the three months ended January 31, 2013 and 2012, interest income was $0.1 million in each period.

During the three months ended January 31, 2013 and 2012, interest expense totaled approximately $0.1 million for both periods. In both periods, interest expense related primarily to the Company s stadium obligation.

Other Gains (Losses), net:

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

Other gains, net, were $0.8 million for the three months ended January 31, 2012. The Company recorded foreign exchange gains of approximately $0.8 million during the three months ended January 31, 2012. These net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately $0.8 million and $0.4 million in Europe and Asia, respectively, offset by net losses of $0.4 million in the Americas.

Equity in Losses of Affiliates and Impairments:

Equity in losses of affiliates and impairments, results from the Company s minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company s proportionate share of each affiliate s operating income or losses is included in equity in losses of affiliates. Equity in losses of affiliates was $2.2 million and $0.3 million for the three months ended January 31, 2013 and 2012, respectively. During the three months ended January 31, 2013, the Company recorded a $1.5 million of impairment charge related to a certain investments in the @Ventures portfolio of companies.

The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular investment s net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee s cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes and competition. The

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valuation process is based primarily on information that the Company requests from these privately held companies and is not subject to the same disclosure and audit requirements as the reports required of U.S. public companies. As such, the reliability and the accuracy of the data may vary.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to volatility in our reported results of operations in the past and may negatively impact our results of operations in the future. We may incur impairment charges to our investments in privately held companies, which could have an adverse impact on our future results of operations. A decline in the carrying value of our $9.6 million of investments in affiliates at January 31, 2013 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by $1.0 million to $1.9 million.

Income Tax Expense:

During the three months ended January 31, 2013, the Company recorded income tax expense of approximately $0.7 million, as compared to income tax expense of $0.4 million for same period in the prior fiscal year. For the three months ended January 31, 2013 and 2012, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions.

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

Discontinued Operations:

During the three months ended January 31, 2013, the Company recorded loss from discontinued operations of $0.1 million, as compared to a loss of $0.5 million for the same period in the prior fiscal year. The decrease in this loss of $0.4 million is attributable to $0.7 million of gain on the disposition of the TFL business and an increase of $0.6 million in TFL s operating results, partially offset by a decline in income from other discontinued operations of $0.9 million. The decline in income from other discontinued operations was the result of the execution of a sublease of the Company s previously vacated facility, which resulted in an adjustment to the Company s estimate of future minimum lease payments recoverable through sublease receipts during the prior year period.

Results of Operations

Six months ended January 31, 2013 compared to the six months ended January 31, 2012

Net Revenue:

	Six Months Ended January 31, 2013	As a % of Total Net Revenue	Six Months Ended January 31, 2012	As a % of Total Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 131,641	32.9%	$ 129,009	35.1%	$ 2,632	2.0%
Asia	116,731	29.1%	111,863	30.5%	4,868	4.4%
Europe	136,748	34.2%	108,316	29.5%	28,432	26.2%
All Other	15,367	3.8%	18,077	4.9%	(2,710)	(15.0%)

Total	$ 400,487	100.0%	$ 367,265	100.0%	$ 33,222	9.0%

Net revenue increased by approximately $33.2 million during the six months ended January 31, 2013, as compared to the same period in the prior year. This increase was primarily a result of $55.0 million of revenue from new client programs, partially offset by lower volumes from certain other client programs. Approximately $245.7 million of the net revenue for the six months ended January 31, 2013 related to the procurement and re-sale of materials on behalf of our clients as compared to $224.4 million for the six months ended January 31, 2012.

During the six months ended January 31, 2013, net revenue in the Americas region increased by approximately $2.6 million. This increase resulted primarily from $2.9 million of revenue associated with a new client program, partially offset by lower order volumes from existing client programs during the first quarter of fiscal year 2013. Within the Asia region, the net revenue increase of

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approximately $4.9 million resulted from higher order volumes from existing client programs. Within the Europe region, net revenue increased by approximately $28.4 million primarily due to certain new client programs resulting from these client s new product launches. Net revenue for e-Business decreased by approximately $2.7 million due to the expiration of certain client programs, partially offset by higher volumes from other clients.

A significant portion of our client base operates in the technology sector, which is intensely competitive and very volatile. Our clients order volumes vary from quarter to quarter for a variety of reasons, including market acceptance of their new product introductions and overall demand for their products including seasonality factors. This business environment, and our mode of transacting business with our clients, does not lend itself to precise measurement of the amount and timing of future order volumes, and as a result, future consolidated and segment sales volumes and revenues could vary significantly from period to period. We sell primarily on a purchase order basis, rather than pursuant to contracts with minimum purchase requirements. These purchase orders are generally for quantities necessary to support near-term demand for our clients products.

Cost of Revenue:

	Six Months Ended January 31, 2013	As a % of Segment Net Revenue	Six Months Ended January 31, 2012	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 125,386	95.2%	$ 123,784	95.9%	$ 1,602	1.3%
Asia	90,715	77.7%	85,000	76.0%	5,715	6.7%
Europe	132,306	96.8%	102,485	94.6%	29,821	29.1%
All Other	13,178	85.8%	14,815	82.0%	(1,637)	(11.0%)
Total	$ 361,585	90.3%	$ 326,084	88.8%	$ 35,501	10.9%

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 increased by approximately $35.5 million for the six months ended January 31, 2013, as compared to the six months ended January 31, 2012. Gross margin for the first six months of fiscal 2013 was 9.7% as compared to 11.2% in the prior year comparable period. This decrease is attributable to a unfavorable geographic, product and customer mix.

For the six months ended January 31, 2013, the Company s gross margin percentages within the Americas, Asia and Europe regions were 4.8%, 22.3% and 3.2%, as compared to 4.1%, 24.0% and 5.4%, respectively, for the same period of the prior year. The decrease in gross margin within the Asia and Europe regions is primarily attributable to an unfavorable product and customer mix.

As a result of the lower overall cost of delivering the Company s services in the Asia region, particularly China, we expect gross margin levels in Asia to continue to exceed those earned in the Americas and Europe regions. However, we expect that there will continue to be pressure on gross margin levels in Asia as the market, particularly China, matures.

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Selling, General and Administrative Expenses:

	Six Months Ended January 31, 2013	As a % of Segment Net Revenue	Six Months Ended January 31, 2012 (In thousands)	As a % of Segment Net Revenue	$ Change	% Change
Americas	$ 7,284	5.5%	$ 7,577	5.9%	$ (293)	(3.9%)
Asia	11,344	9.7%	12,537	11.2%	(1,193)	(9.5%)
Europe	10,058	7.4%	10,864	10.0%	(806)	(7.4%)
All Other	1,381	9.0%	1,903	10.5%	(522)	(27.4%)
Sub-total	30,067	7.5%	32,881	9.0%	(2,814)	(8.6%)
Corporate-level activity	17,795		11,449		6,346	55.4%
Total	$ 47,862	12.0%	$ 44,330	12.1%	$ 3,532	8.0%

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, 2013 increased by approximately $3.5 million compared to the six-month period ended January 31, 2012, primarily as a result of a $6.1 million increase in audit, legal and other professional fees associated with the Company s Security and Exchange Commission inquiry and financial restatement process and $0.9 million related to one-time compensation costs. These increases were partially offset by a $1.8 million decrease in costs within the Company s IT organization resulting from cost reduction activities, a $0.9 million reduction in share-based compensation expense, and a $0.8 million decrease in sales and marketing costs.

Amortization of Intangible Assets:

	Six Months Ended January 31, 2013	As a % of Segment Net Revenue	Six Months Ended January 31, 2012 (In thousands)	As a % of Segment Net Revenue	$ Change	% Change
Americas	$ 75	0.1%	$ 75	0.1%	$	
Asia						
Europe						
All Other	494	3.2%	494	2.7%		
Total	$ 569	0.1%	$ 569	0.2%	$	

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

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Restructuring, net:

	Six Months Ended January 31, 2013	As a % of Segment Net Revenue	Six Months Ended January 31, 2012	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 1,366	1.0%	$ 751	0.6%	$ 615	81.9%
Asia	1,918	1.6%	677	0.6%	1,239	183.0%
Europe	2,131	1.6%	3,772	3.5%	(1,639)	(43.5%)
All Other	853	5.6%	19	0.1%	834	4389.5%
Sub-total	6,268	1.6%	5,219	1.4%	1,049	20.1%
Corporate-level activity						
Total	$ 6,268	1.6%	$ 5,219	1.4%	$ 1,049	20.1%

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

During the six months ended January 31, 2012, the Company recorded a net restructuring charge of approximately $5.2 million. Of this amount, approximately $3.7 million related to the workforce reduction of 48 employees in Europe, $0.5 million for the workforce reduction of 144 employees in China, $0.4 million related to the workforce reduction of 5 employees within the Company s IT organization, and $0.2 million related to the workforce reduction of 9 employees in Raleigh, North Carolina. Also, approximately $0.4 million and $0.1 million of the restructuring charges related to certain contractual obligations in connection with the restructuring of facilities in the ModusLink PTS business and in Raleigh, North Carolina, respectively.

Interest Income/Expense:

During the six months ended January 31, 2013 and 2012, interest income was $0.2 million in each period.

During the six months ended January 31, 2013 and 2012, interest expense totaled approximately $0.2 million for both periods. In both periods, interest expense related primarily to the Company s stadium obligation.

Other Gains (Losses), net:

Other losses, net, were $2.3 million for the six months ended January 31, 2013. The Company recorded foreign exchange losses of approximately $2.1 million during the six months ended January 31, 2013. These net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately $2.3 million and $1.1 million in Europe and Asia, respectively, offset by realized and unrealized gains of approximately $1.3 million in the Americas.

Other gains, net, were $2.1 million for the six months ended January 31, 2012. The Company recorded foreign exchange gains of approximately $2.0 million during the six months ended January 31, 2012. These net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately $1.6 million and $0.7 million in Europe and Europe, respectively, offset by net losses of $0.3 million in the Americas.

Equity in Losses of Affiliates and Impairments:

Equity in losses of affiliates and impairments, results from the Company s minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company s proportionate share of each affiliate s operating income or losses is included in equity in losses of affiliates. Equity in losses of affiliates was $2.5 million and $0.7 million for the six months ended January 31, 2013 and 2012, respectively. During the six months ended January 31, 2013, the Company recorded a $1.5 million of impairment charge related to a certain investment in the @Ventures portfolio of companies.

The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular investment s net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee s cash position, projected cash flows (both short and long-term), financing needs, recent financing

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rounds, most recent valuation data, the current investing environment, management/ownership changes and competition. The valuation process is based primarily on information that the Company requests from these privately held companies and is not subject to the same disclosure and audit requirements as the reports required of U.S. public companies. As such, the reliability and the accuracy of the data may vary.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to volatility in our reported results of operations in the past and may negatively impact our results of operations in the future. We may incur impairment charges to our investments in privately held companies, which could have an adverse impact on our future results of operations. A decline in the carrying value of our $9.6 million of investments in affiliates at January 31, 2013 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by $1.0 million to $1.9 million.

Income Tax Expense:

During the six months ended January 31, 2013, the Company recorded income tax expense of approximately $1.6 million, as compared to income tax expense of $2.3 million for same period in the prior fiscal year. For the six months ended January 31, 2013 and 2012, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions.

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

Discontinued Operations:

During the six months ended January 31, 2013, the Company recorded loss from discontinued operations of $1.0 million, as compared to a loss of $1.9 million for the same period in the prior fiscal year. The decrease in this loss of $0.9 million is attributable to $0.7 million of gain on the disposition of the TFL business and an increase of $1.1 million in TFL s operating results, partially offset by a decline in income from other discontinued operations of $0.9 million. The decline in income from other discontinued operations was the result of the execution of a sublease of the Company s previously vacated facility, which resulted in an adjustment to the Company s estimate of future minimum lease payments recoverable through sublease receipts during the prior year period.

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, returns generated by our venture capital investments and borrowings from lending institutions. As of January 31, 2013, the Company s primary sources of liquidity consisted of cash and cash equivalents of $51.8 million.

On October 31, 2012, the Company and certain of its domestic subsidiaries entered into a Credit Agreement (the Credit Facility) with Wells Fargo Bank, National Association as lender and agent for the lenders party thereto. The Credit Facility provides a senior secured revolving credit facility up to an initial aggregate principal amount of $50.0 million or the calculated borrowing base and is secured by substantially all of the domestic assets of the Company. As of January 31, 2013, the calculated borrowing base was $43.6 million. The Credit Facility terminates on October 31, 2015. Interest on the Credit Facility is based on the Company s options of LIBOR plus 2.5% or the base rate plus 1.5%. The Credit Facility includes one restrictive financial covenant, which is minimum EBITDA, and restrictions that limit the ability of the Company, to among other things, create liens, incur additional indebtedness, make investments, or dispose of assets or property without prior approval from the lenders. The Company did not have any outstanding indebtedness related to the Credit Facility as of January 31, 2013.

Consolidated working capital was $99.1 million at January 31, 2013, compared with $113.5 million at July 31, 2012. Included in working capital were cash and cash equivalents of $51.8 million at January 31, 2013 and $52.4 million at July 31, 2012. The decrease in working capital is primarily due to an increase in accounts payable related to higher cost of revenues, partially offset by an increase in accounts receivable resulting from an increase in sales.

Cash provided by operating activities of continuing operations represents income (loss) from continuing operations as adjusted for non-cash items and changes in operating assets and liabilities. Net cash provided by operating activities of continuing operations was $3.8 million for the six months ended January 31, 2013, as compared to net cash used in operating activities of continuing operations of $5.0 million in the prior year period. The $8.8 million increase in cash provided by operating activities of continuing operations for the six months ended January 31, 2013 compared with the same period in the prior year was due to a $16.4 million increase in cash resulting from changes in operating assets and liabilities, partially offset by a $7.6 million decrease in income from continuing operations as adjusted for non-cash items. During the six months ended January 31, 2013, non-cash items included depreciation expense of $6.8 million, share-based compensation of $0.9 million, amortization of intangible assets of $0.6 million, non-operating losses, net, of $2.3 million, and equity in losses of affiliates and impairments of $2.5 million.

During the six months ended January 31, 2012, non-cash items included depreciation expense of $7.2 million, share-based compensation of $1.9 million, amortization of intangible assets of $0.6 million, non-operating gains, net, of $2.1 million, and equity in losses of affiliates and impairments of $0.7 million.

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

Investing activities of continuing operations used cash of $4.2 million and $5.8 million during the six months ended January 31, 2013 and 2012, respectively. The $4.2 million of cash used in investing activities during the six months ended January 31, 2013 resulted primarily from $3.6 million in capital expenditures, $0.7 million of restricted cash used as collateral for borrowing obligations and $1.5 million of investments in affiliates, partially offset by $1.3 million of proceeds received from the sale of TFL s assets. The $5.8 million of cash used in investing activities during the six months ended January 31, 2012 resulted primarily from $4.7 million in capital expenditures and $1.1 million of investments in affiliates. As of January 31, 2013, the Company had a carrying value of $9.6 million of investments in affiliates, which may be a potential source of future liquidity. However, the Company does not anticipate being dependent on liquidity from these investments to fund either its short-term or long-term operating activities.

Financing activities of continuing operations used cash of $0.2 million during both the six months ended January 31, 2013 and 2012. The $0.2 million of cash used for financing activities of continuing operations during the six months ended January 31, 2013 primarily related to cash used to repurchase the Company s common stock. The $0.2 million of cash used for financing activities of continuing operations during the six months ended January 31, 2012 primarily related to $0.2 million of cash used to repurchase the Company s common stock and $0.1 million of capital leases repayments, partially offset by $0.1 million of proceeds from the issuance of common stock. The Company is not dependent on liquidity from its financing activities to fund either its short-term or long-term operating activities; however, we have utilized our revolving line of credit to meet operating requirements in the past.

Cash used in discontinued operations totaled $1.4 million and $1.0 million for the six months ended January 31, 2013 and 2012, respectively. The increase in cash used in discontinued operations is primarily related to $0.7 million of cash outflows associated with the disposed TFL business, partially offset by a $0.3 million decrease in costs for ongoing lease obligations.

Given the Company s cash resources as of January 31, 2013, the Company believes that it has sufficient working capital and liquidity to support its operations for at least the next 12 months. There are no material capital expenditure requirements as of January 31, 2013. However, should additional capital be needed to fund any future cash needs, investments or acquisition activities, the Company may seek to raise additional capital through offerings of the Company s stock, or through debt financing. There can be no assurance, however, that the Company will be able to raise additional capital on terms that are favorable to the Company, or at all.

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, 2012. The company s contractual obligations and other commercial commitments did not change materially between July 31, 2012 and January 31, 2013. The Company s gross liability for unrecognized tax benefits and related accrued interest was approximately $1.1 million as of

January 31, 2013. 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, 2013, the Company had no recorded liabilities with respect to these arrangements.

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Critical Accounting Policies

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

During the three months ended January 31, 2013, 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, 2012.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

As a matter of policy, the Company does not enter into derivative financial instruments for trading purposes. All derivative positions are used to reduce risk by hedging underlying economic or market exposure and are valued at their fair value on our consolidated balance sheets and adjustments to the fair value during this holding period are recorded in the Consolidated Statement of Operations. As of January 31, 2013, the Company did not have any foreign currency exchange contracts outstanding.

Interest Rate Risk

At January 31, 2013, the Company had no outstanding borrowings under its Credit Facility and the Company had no open derivative positions with respect to its borrowing arrangements.

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

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

Foreign Currency Risk

The Company has operations in various countries and currencies throughout the world and its operating results and financial position are subject to exposure from fluctuations in foreign currency exchange rates. The Company has historically used derivative financial instruments on a limited basis, principally foreign currency exchange rate contracts, to minimize the transaction exposure that results from such fluctuations. As of January 31, 2013, the Company did not have any outstanding foreign currency exchange contracts.

Revenues from our foreign operating segments accounted for approximately 63% of total revenues during both the three and six months ended January 31, 2013. 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.

Primary currencies include Euros, Singapore Dollars, Chinese Renminbi, Hungarian Forints, Czech Koruna, Taiwan Dollars, Japanese Yen, Australian Dollars, Malaysian Ringgits, Mexican Pesos and Indian Rupee. The income statements of our international operations 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, 2013, we recorded a foreign currency translation gain of approximately $1.8 million which is recorded within accumulated other comprehensive income in stockholders equity in our condensed consolidated balance sheet. In addition, certain of our subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity s functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. For the three months ended January 31, 2013, we recorded realized and unrealized foreign currency transaction losses of approximately $1.0 million which is recorded in Other gains (losses), net in our condensed consolidated statement of operations.

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

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

At the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Disclosure controls and procedures means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of January 31, 2013 because of the material weaknesses in internal control over financial reporting discussed below.

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

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

As previously reported in the Company s Annual Report on Form 10-K for the year ended July 31, 2012, the Company identified material weaknesses in our internal control over financial reporting. A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement to the annual or interim financial statements will not be prevented or detected on a timely basis. Management identified the following material weaknesses as of July 31, 2012:

The Company s internal controls were not sufficient to ensure that the Company complied with the terms of certain cost-plus and cost-pass-through client contracts when calculating the prices charged to clients. More specifically, the Company did not maintain adequate controls related to:

- Contract administration to ensure an appropriate understanding and sufficient communication of relevant contract terms, including pricing terms, between individuals responsible for accumulating costs and individuals responsible for establishing client prices under certain cost-based client contracts;
- The accuracy of the allocation of vendor rebates received to the costs incurred under certain cost-based client contracts to ensure that sales pricing is compliant with the underlying client contracts; and
- The accuracy of cost mark-ups related to certain cost-based client contracts to ensure that sales pricing is compliant with the underlying client contracts.

In addition, the Company s internal controls were not sufficient to ensure that the Company records its income tax expense correctly. More specifically, the Company did not maintain adequately designed controls to monitor changes in the status of uncertain tax positions in foreign tax jurisdictions.

Management has been actively engaged in the planning for, and implementation of, remediation efforts to address the material weaknesses, as well as other identified areas of risk. These remediation efforts, outlined below, are intended both to address the identified material weaknesses and to enhance the Company s internal controls over financial reporting.

The Company has implemented new controls and enhanced procedures to improve the internal controls over contract administration, client pricing in relation to cost markups and management of vendor rebates. Implemented procedures to date include:

- An independent review of client billings for verifying accurate pricing and adherence to contractual terms;
- The implementation of net pricing agreements with vendors effective April 11, 2012, and wind down of existing volume discount rebate programs; and
- Corporate level control which analyzes prior rebate arrangements and pricing markups by customer each quarter to check the accuracy of the associated revenue and adjust accordingly for adherence with the client contractual terms.

On a longer term basis, management is in the process of performing a review of all process- and transaction-level controls, in addition to assessing relevant monitoring and entity-level controls, in relation to contract administration, purchasing, client invoicing, and availability of relevant information across all three areas. Management expects to enhance existing process-level controls and potentially implement new controls in each area as the processes are redesigned.

Management s planned actions to further address these issues include:

- Improving procedures to ensure proper communication and approval of sales contracts, to ensure the contracted terms are understood and adhered to in the areas of client pricing, billings and accounting for revenue transactions;

- Establishing a formal review over the initiation of client and vendor contracts; and

- Providing additional and on-going revenue recognition training to personnel responsible for the transmittal of revenue related information to accounting and finance personnel to allow for appropriate financial reporting under accounting principles generally accepted in the U.S.

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For the income tax control material weakness, the Company has redesigned its monitoring control for uncertain tax positions and will conduct a review of uncertain tax positions with the Company s foreign tax consultants at least on an annual basis, and quarterly, if there is an indication of a change in a tax position.

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

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

We expect that our remediation efforts will continue throughout fiscal year 2013. Management has not yet completed its remediation efforts and any remediation actions put in place must be effective over a period of time, fully documented and tested.

Changes in Internal Control Over Financial Reporting

Other than the changes resulting from the remediation activities described above, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended January 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Following the June 11, 2012 announcement of the pending restatement (the June 11, 2012 Announcement), shareholders of the Company commenced three purported class actions in the United States District Court for the District of Massachusetts arising from the circumstances described in the June 11, 2012 Announcement (the Securities Actions), entitled, respectively:

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

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

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

Each of the Securities Actions purports to be brought on behalf of those persons who purchased shares of the Company between September 26, 2007 through and including June 8, 2012 (the Class Period) and alleges that failure to timely disclose the issues raised in the June 11, 2012 Announcement during the Class Period rendered defendants public statements concerning the Company s financial condition materially false and misleading in violation of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder. On February 11, 2013, following the Company s restatement, plaintiffs filed a consolidated amended complaint in the Securities Action. The Company moved to dismiss the amended complaint on March 11, 2013.

On July 13, 2012, a fourth shareholder commenced a purported derivative action in United States District Court for the District of Massachusetts against the Company (as nominal defendants), and certain of its current and former directors and officers, entitled, *Samuel Montini, Derivatively On Behalf Of ModusLink Global Solutions, Inc. v. Joseph C. Lawler, Steven G. Crane, Francis J. Jules, Virginia G. Breen, Michael J. Mardy, Edward E. Lucente, Jeffrey J. Fenton, Joseph M. O Donnell, William R. McLennan, Thomas H. Johnson, And Anthony J. Bay, Defendants, And ModusLink Global Solutions, Inc., A Delaware Corporation, Nominal Defendant*, Case 1:12-CV-11296-DJC and on July 31, 2012, a fifth shareholder commenced a purported derivative action in United States District Court for the District of Massachusetts against the Company (as nominal defendants), and certain of its current and former directors and officers, entitled, *Edward Tansey, Derivatively On Behalf Of ModusLink Global Solutions, Inc. v. Joseph C. Lawler, Steven G.*

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Crane, Francis J. Jules, Virginia G. Breen, Michael J. Mardy, Edward E. Lucente, Jeffrey J. Fenton, Joseph M. O Donnell, William R. McLennan, Thomas H. Johnson, And Anthony J. Bay, Defendants, And ModusLink Global Solutions, Inc., A DelawareCorporation, Nominal Defendant, Civil Action No. 12-CV-11399 (DJC) (collectively, the Derivative Actions). The Derivative Actions further assert that as a result of the individual defendants alleged actions and course of conduct, the Company is now the subject of the Securities Actions and will incur related expenses and a possible judgment against it. These litigation matters also arise from the issues raised in the June 11, 2012 Announcement and allege that the individual defendants breached their duty of loyalty to the Company by allowing defendants to cause, or by themselves causing, the Company to make improper statements regarding its business prospects and/or by failing to prevent the other Individual Defendants from taking such purportedly illegal actions. The plaintiffs are scheduled to file a consolidated amended complaint in the Derivative Actions on March 4, 2013, and the Company is to file its initial response to that complaint on April 3, 2013.

Although there can be no assurance as to the ultimate outcome, the Company believes it has meritorious defenses, will deny liability, and intends to defend this litigation vigorously.

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

Item 1A. Risk Factors.

There have not been any material changes from the risk factors previously disclosed in the Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended July 31, 2012. In addition to the other information set forth in this report, including in the first paragraph under Management s Discussion and Analysis of Financial Condition and Results of Operation, you should carefully consider the factors discussed in our Annual Report on Form 10-K, 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 the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

The following table provides information about purchases by the Company of its common stock during the quarter ended January 31, 2013:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
November 1, 2012 November 30, 2012	318(1)	$ 3.89		$
December 1, 2012 December 31, 2012	118(1)	$ 3.32		
January 1, 2013 January 31, 2013	1,264(1)	$ 2.73		

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

Item 6. Exhibits.

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

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

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 12, 2013	By:	/s/ STEVEN G. CRANE **Steven G. Crane** **Chief Financial Officer**

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

EXHIBIT INDEX

4.1	Amendment No. 1, dated as of February 11, 2013 to Rights Agreement, dated as of March 21, 2012, between ModusLink Global Solutions, Inc. and American Stock Transfer & Trust Company, LLC is incorporated herein by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed on February 13, 2013 (File No. 001-35319).
10.1	Offer Letter, dated as of January 13, 2013, from ModusLink Global Solutions, Inc. to John J. Boucher is incorporated herein by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on January 17, 2013 (File No. 001-35319).
10.2	Transition Agreement, dated as of January 25, 2013, by and between ModusLink Global Solutions, Inc. and Thomas Nightingale is incorporated herein by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on January 31, 2013 (File No. 001-35319).
10.3	Executive Severance Agreement, dated as of January 28, 2013, by and between ModusLink Global Solutions, Inc. and John J. Boucher is incorporated herein by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on January 31, 2013 (File No. 001-35319).
10.4	Investment Agreement, dated February 11, 2013, between ModusLink Global Solutions, Inc. and Steel Partners Holdings, L.P. is incorporated herein by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on February 13, 2013 (File No. 001-35319).
10.5	Settlement Agreement, dated February 11, 2013, among ModusLink Global Solutions, Inc., Handy & Harman, Ltd. and certain of its affiliates party thereto is incorporated herein by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on February 13, 2013 (File No. 001-35319).
10.6	Consulting Agreement, dated February 11, 2013, between Edward E. Lucente and ModusLink Global Solutions, Inc. is incorporated herein by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K filed on February 13, 2013 (File No. 001-35319).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Unaudited Condensed Consolidated Balance Sheets as of January 31, 2013 and July 31, 2012, (ii) Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months ended January 31, 2013 and 2012, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months ended January 31, 2013 and 2012 (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months ended January 31, 2013 and 2012 and (v) Notes to Unaudited Condensed Consolidated Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.