ModusLink Global Solutions Inc
Form 10-Q
March 12, 2015

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, 2015

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**
1601 Trapelo Road, Suite 170	
Waltham, Massachusetts	**02451**
(Address of principal executive offices)	**(Zip Code)**

(781) 663-5000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 February 28, 2015, there were 52,248,465 shares issued and outstanding of the registrant s Common Stock, $0.01 par value per share.

MODUSLINK GLOBAL SOLUTIONS, INC.

FORM 10-Q

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share and share amounts)

(unaudited)

	January 31, 2015	July 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 122,872	$ 183,515
Trading securities	71,608	22,793
Accounts receivable, trade, net of allowance for doubtful accounts of $56 and $63 at January 31, 2015 and July 31, 2014, respectively	133,027	123,948
Inventories	66,887	65,269
Prepaid expenses and other current assets	21,435	10,243
Total current assets	415,829	405,768
Property and equipment, net	22,571	25,126
Investments in affiliates	7,188	7,172
Goodwill	3,058	3,058
Other intangible assets, net	131	667
Other assets	8,245	9,855
Total assets	$ 457,022	$ 451,646
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 132,201	$ 105,045
Accrued restructuring	1,233	2,246
Accrued expenses	40,473	39,544
Other current liabilities	36,273	51,759
Total current liabilities	210,180	198,594
Long-term portion of accrued restructuring		39
Notes payable	75,560	73,391
Other long-term liabilities	8,090	8,004
Long-term liabilities	83,650	81,434
Total liabilities	293,830	280,028
Stockholders equity:		

Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding shares at January 31, 2015 and July 31, 2014		
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; 52,220,127 issued and outstanding shares at January 31, 2015; 52,100,763 issued and outstanding shares at July 31, 2014	522	521
Additional paid-in capital	7,451,419	7,450,541
Accumulated deficit	(7,294,746)	(7,293,412)
Accumulated other comprehensive income	5,997	13,968
Total stockholders equity	163,192	171,618
Total liabilities and stockholders equity	$ 457,022	$ 451,646

See accompanying notes to unaudited condensed consolidated financial statements

MODUSLINK GLOBAL SOLUTIONS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2015	2014	2015	2014
Net revenue	$ 148,310	$ 194,011	$ 335,754	$ 385,426
Cost of revenue	131,716	171,431	300,322	340,851
Gross profit	16,594	22,580	35,432	44,575
Operating expenses				
Selling, general and administrative	14,639	19,572	30,161	37,687
Amortization of intangible assets	268	280	536	560
Impairment of long-lived assets		500		500
Restructuring, net	1,041	993	2,942	1,972
Total operating expenses	15,948	21,345	33,639	40,719
Operating income	646	1,235	1,793	3,856
Other income (expense):				
Interest income	355	65	419	167
Interest expense	(2,619)	(199)	(5,286)	(412)
Other gains, net	411	892	3,238	191
Impairment of investments in affiliates		(177)		(177)
Total other income (expense)	(1,853)	581	(1,629)	(231)
Income (loss) from continuing operations before income taxes	(1,207)	1,816	164	3,625
Income tax expense	549	753	1,706	1,890
Equity in (gains) losses of affiliates, net of tax	(200)		(208)	134
Income (loss) from continuing operations	(1,556)	1,063	(1,334)	1,601
Discontinued operations, net of income taxes:				
Income from discontinued operations		1		80
Net income (loss)	$ (1,556)	$ 1,064	$ (1,334)	$ 1,681
Basic net income per share:				
Income (loss) from continuing operations	$ (0.03)	$ 0.02	$ (0.03)	$ 0.03
Income from discontinued operations	0.00	0.00	0.00	0.00

Net income (loss)	$ (0.03)	$ 0.02	$ (0.03)	$ 0.03
Diluted net income per share:				
Income (loss) from continuing operations	$ (0.03)	$ 0.02	$ (0.03)	$ 0.03
Income from discontinued operations	0.00	0.00	0.00	0.00
Net income (loss)	$ (0.03)	$ 0.02	$ (0.03)	$ 0.03
Weighted average common shares used in:				
Basic earnings per share	51,646	51,498	51,888	51,467
Diluted earnings per share	51,646	51,811	51,888	51,539

See accompanying notes to unaudited condensed consolidated financial statements

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2015	2014	2015	2014
Net income (loss)	$ (1,556)	$ 1,064	$ (1,334)	$ 1,681
Other comprehensive income:				
Foreign currency translation adjustment	(4,515)	(2,137)	(7,154)	(58)
Pension liability adjustments, net of tax	(450)	250	(811)	250
Net unrealized holding gain (loss) on securities, net of tax	1	2	(6)	(4)
Other comprehensive income (loss)	(4,964)	(1,885)	(7,971)	188
Comprehensive income (loss)	$ (6,520)	$ (821)	$ (9,305)	$ 1,869

See accompanying notes to unaudited condensed consolidated financial statements

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended January 31,	
	2015	**2014**
Cash flows from operating activities of continuing operations:		
Net income (loss)	$ (1,334)	$ 1,681
Income from discontinued operations		80
Income (loss) from continuing operations	(1,334)	1,601
Adjustments to reconcile income from continuing operations to net cash used in operating activities of continuing operations:		
Depreciation	4,729	6,571
Amortization of intangible assets	536	560
Amortization of deferred financing costs	277	236
Accretion of debt discount	2,169	
Impairment of long-lived assets		500
Share-based compensation	855	1,150
Non-operating gains, net	(3,238)	(191)
Equity in (gains) losses of affiliates and impairments	(208)	311
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(15,819)	(3,659)
Inventories	(5,316)	(7,705)
Prepaid expenses and other current assets	(12,166)	(1,022)
Accounts payable, accrued restructuring and accrued expenses	31,430	229
Refundable and accrued income taxes, net	2,044	1,923
Other assets and liabilities	15,528	29
Net cash provided by operating activities of continuing operations	19,487	533
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(3,823)	(1,682)
Purchase of trading securities	(69,221)	
Investments in affiliates	(216)	(412)
Proceeds from investments in affiliates	408	
Net cash used in investing activities of continuing operations	(72,852)	(2,094)
Cash flows from financing activities of continuing operations:		
Repayments on capital lease obligations	(93)	(49)
Proceeds from revolving line of credit	21,265	
Repayments of revolving line of credit	(25,718)	

Proceeds from issuance of common stock	24	117
Repurchase of common stock		(37)
Net cash provided by (used in) financing activities of continuing operations	(4,522)	31
Cash flows from discontinued operations:		
Operating cash flows		(579)
Net cash used in discontinued operations		(579)
Net effect of exchange rate changes on cash and cash equivalents	(2,756)	(533)
Net decrease in cash and cash equivalents	(60,643)	(2,642)
Cash and cash equivalents at beginning of period	183,515	77,916
Cash and cash equivalents at end of period	$ 122,872	$ 75,274

See accompanying notes to unaudited condensed consolidated financial statements

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) NATURE OF OPERATIONS

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

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

(2) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2014, which are contained in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on October 14, 2014. The results for the three and six months ended January 31, 2015 are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the period ended January 31, 2015, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

During the quarter ended January 31, 2015, the Company commenced a reverse split of the Company s common stock, immediately followed by a forward stock split of the Company s common stock, which are intended to reduce the costs associated with servicing stockholder accounts holding relatively small numbers of shares of the Company s common stock. The ratio for the reverse stock split as approved by the Company s Board of Directors, and by the Company s Stockholders at the December 9, 2014 Annual Meeting of Stockholders, was fixed at 1-for-100 and the ratio for the forward stock split was fixed at 100-for-1. The Reverse/Forward Split did not change the authorized number of shares of Common Stock or in the par value of such shares. No fractional shares were issued in connection with the Reverse/Forward Split.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends ASC 205, Presentation of Financial Statements, and ASC 360, Property, Plant and Equipment. This ASU defines a discontinued operation as a component or group of components that is disposed of or meets the criteria as held for sale and represents a strategic shift that has or will have a major effect on an entity s operations and financial results. This ASU requires additional disclosures about discontinued operations and new disclosures for components of an entity that are held for sale or disposed of and are individually significant but do not qualify for presentation as a discontinued operation. The requirements are effective prospectively starting with our first quarter of fiscal year 2016, and is related to presentation only. The adoption will not have a material effect on the Company s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and

assets recognized from costs incurred to obtain or fulfill a contract. The effective date will be the first quarter of fiscal year 2018 using one of two retrospective application methods or a cumulative effect approach. The Company is evaluating the potential effects on the consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15 Presentation of Financial Statements Going Concern (Subtopic 205-40), which amends the accounting guidance related to the evaluation of an entity s ability to continue as a going concern. The amendment establishes management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern in connection with preparing financial statements for each annual and interim reporting period. The update also gives guidance to determine whether to disclose information about relevant conditions and events when there is substantial doubt about an entity s ability to continue as a going concern. This guidance will be effective for the Company as of December 15, 2016. The new guidance will not have an effect on the Company s consolidated financial statements.

(4) INVENTORIES

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

Inventories consisted of the following:

	January 31, 2015	July 31, 2014
	(In thousands)	
Raw materials	$ 57,487	$ 51,179
Work-in-process	571	910
Finished goods	8,829	13,180
	$ 66,887	$ 65,269

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

(5) INVESTMENTS IN AFFILIATES

Trading securities

Near the end of the quarter ended July 31, 2014, the Company acquired $12.9 million in convertible debentures of a publicly traded entity. At this time the Company is uncertain with respect to the holding period of these securities, therefore these securities are classified as trading securities. These trading securities offer higher yields than are currently available from money market securities or other equivalent investments. As of July 31, 2014, the trades associated with these securities had not settled and, as such, the payment associated with the acquisition of these securities had not been made. As of July 31, 2014, the liability associated with this payment is classified under other current liabilities on our balance sheet. Additionally, near the end of the quarter ended July 31, 2014 the Company acquired $9.9 million in common stock of a publicly traded entity. As of July 31, 2014, most of the trades associated with these securities had not settled and, as such, $9.4 million of the payment associated with the acquisition of these securities had not been made. The liability associated with these payments is classified under other current liabilities on our balance sheet as of July 31, 2014. Unrealized gains and losses associated with these securities were immaterial for the fiscal year ended July 31, 2014.

During the quarter ended October 31, 2014, the Company continued its investing activities and acquired additional convertible debentures of a publicly traded entity and acquired additional common stock of a publicly traded entity. No acquisition of trading securities was made during the quarter ended January 31, 2015. As of January 31, 2015, the Company had $71.6 million in investments in trading securities, $31.5 million of which were the publicly traded convertible debentures. The Company s purchases of the publicly traded convertible debentures were on the open market. The chairman of the board of the company issuing the publicly traded convertible debentures is also the chairman of the board of ModusLink Global Solutions, Inc. The trading securities were classified within Level 1 of the fair value hierarchy.

@Ventures

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

During the three and six months ended January 31, 2015, approximately $0.2 million was invested by the Company in privately held companies. During the three and six months ended January 31, 2014, approximately $0.4 million was invested by the Company in privately held companies. During the three and six months ended January 31, 2015, the Company did not record any impairment charges related to an investment in the @Ventures portfolio of companies. During the three and six months ended January 31, 2014, the Company recorded $0.2 million in impairment charges related to an investment in the @Ventures portfolio of companies. The Company had $0.4 million in distributions from its investments during the three and six month periods ended January 31, 2015. The Company did not receive any distributions from its investments during the three and six month periods ended January 31, 2014. At January 31, 2015 and July 31, 2014, the Company s carrying value of investments in privately held companies was approximately $7.2 million.

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

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

(6) GOODWILL

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

The Company s remaining goodwill of $3.1 million as of January 31, 2015 and July 31, 2014 relates to the Company s e-Business reporting unit. There were no indicators of impairment identified related to the Company s e-Business reporting unit during the three and six months ended January 31, 2015.

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(7) OTHER CURRENT LIABILITIES

The following table reflects the components of Other Current Liabilities :

	January 31, 2015	July 31, 2014
	(In thousands)	
Accrued pricing liabilities	$ 18,882	$ 19,301
Unsettled trading securities liabilities		22,430
Line of credit liability		4,453
Funds held for clients	8,017	
Other	9,374	5,575
	$ 36,273	$ 51,759

As of January 31, 2015 and July 31, 2014, the Company had accrued pricing liabilities of approximately $18.9 million and $19.3 million, respectively. As previously reported by the Company, several adjustments were made to its historic financial statements for periods ending on or before January 31, 2012, the most significant of which related to the treatment of vendor rebates in its pricing policies. Where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract (collectively referred to as pricing adjustments), the Company concluded that these amounts were not properly recorded as revenue. Accordingly, revenue was reduced by an equivalent amount for the period that the rebate was estimated to have affected. A corresponding liability for the same amount was recorded in that period (referred to as accrued pricing liabilities). The Company believes that it may not ultimately be required to pay all of the accrued pricing liabilities, due in part to the nature of the interactions with its clients. The remaining accrued pricing liabilities at January 31, 2015 will be derecognized when there is sufficient information for the Company to conclude that such liabilities have been extinguished, which may occur through payment, legal release, or other legal or factual determination.

(8) RESTRUCTURING, NET

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

The $1.0 million restructuring charge recorded during the three months ended January 31, 2015 primarily consisted of $0.4 million, $0.1 million and $0.5 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 72 employees in our global supply chain operations. The $1.9 million restructuring charge recorded during the three months ended October 31, 2014 primarily consisted of $0.4 million, $0.5 million and $1.0 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 93 employees in our global supply chain. The estimated savings on an annualized basis expected to result from these actions is approximately $6.3 million.

The $1.0 million restructuring charge recorded during the three months ended January 31, 2014 primarily consisted of $0.4 million, $0.3 million and $0.3 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 35 employees in our global supply chain operations. The $0.9 million

restructuring charge recorded during the three months ended October 31, 2013 consisted of $0.2 million, $0.1 million and $0.6 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 49 employees in our global supply chain operations.

The following tables summarize the activities related to the restructuring accrual by expense category and by reportable segment for the six months ended January 31, 2015:

	Employee Related Expenses	Contractual Obligations	Total
	(In thousands)		
Accrued restructuring balance at July 31, 2014	$ 1,687	$ 598	$ 2,285
Restructuring charges	2,727	213	2,940
Restructuring adjustments	57	(55)	2
Cash paid	(3,314)	(413)	(3,727)
Non-cash adjustments	(192)	(75)	(267)
Accrued restructuring balance at January 31, 2015	$ 965	$ 268	$ 1,233

	Americas	Asia	Europe	All Other	Consolidated Total
			(In thousands)		
Accrued restructuring balance at July 31, 2014	$ 195	$ 274	$ 1,750	$ 66	$ 2,285
Restructuring charges	860	699	1,381		2,940
Restructuring adjustments	6	(54)	50		2
Cash paid	(464)	(805)	(2,448)	(10)	(3,727)
Non-cash adjustments		(13)	(254)		(267)
Accrued restructuring balance at January 31, 2015	$ 597	$ 101	$ 479	$ 56	$ 1,233

The net restructuring charges for the three and six months ended January 31, 2015 and 2014 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,	
	2015	2014	2015	2014
	(In thousands)			
Cost of revenue	$ 769	$ 693	$ 2,651	$ 1,373
Selling, general and administrative	272	300	291	599
	$ 1,041	$ 993	$ 2,942	$ 1,972

(9) DEBT

Notes Payable

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

Holders of the Notes may convert all or any portion of their notes, in multiples of $1,000 principal amount, at their option at any-time prior to the close of business or the business day immediately preceding the maturity date. Each $1,000 of principal of the Notes will initially be convertible into 166.2593 shares of our common stock, which is equivalent to an initial conversion price of approximately $6.01 per share, subject to adjustment upon the occurrence of certain events, or, if the Company obtains the required consent from its stockholders, into shares of the Company s common stock, cash or a combination of cash and shares of its common stock, at the Company s election. If the Company has received stockholder approval, and it elects to settle conversions through the payment of cash or payment or delivery of a combination of cash and shares, the Company s conversion obligation will be based on the volume weighted average prices (VWAP) of its common stock for each VWAP trading day in a 40 VWAP trading day observation period. The Notes and any of the shares of common stock issuable upon conversion have not been registered.

Holders will have the right to require the Company to repurchase their Notes, at a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, upon the occurrence of certain fundamental changes, subject to certain conditions. No fundamental changes occurred during the three and six months ended January 31, 2015.

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

The Company has valued the debt using similar nonconvertible debt as of the original issuance date of the Notes and bifurcated the conversion option associated with the Notes from the host debt instrument and recorded the conversion option of $28.1 million in stockholders equity prior to the allocation of debt issuance costs. The initial value of the equity component, which reflects the equity conversion feature, is equal to the initial debt discount. The resulting debt discount on the Notes is being accreted to interest expense at the effective interest rate over the estimated life of the Notes. The equity component is included in the additional paid-in-capital portion of stockholders equity on the Company s consolidated balance sheet. In addition, the debt issuance costs of $3.4 million are allocated between the liability and equity components in proportion to the allocation of the proceeds. The issuance costs allocated to the liability component ($2.5 million) are capitalized as a long-term asset on the Company s balance sheet and amortized as additional interest expense over the term of the Notes. This amount has been classified as long-term as the underlying debt instrument has been classified as a long-term liability in the Company s balance sheet. The issuance costs allocated to the equity component is recorded as a reduction to additional paid-in capital. The fair value of our Notes payable, calculated as of the closing price of the traded securities, was $90.9 million and $93.8 million as of January 31, 2015 and July 31, 2014, respectively. This value does not represent the settlement value of these long-term debt liabilities to us. The fair value of the Notes payable could vary each period based on fluctuations in market interest rates, as well as changes to our credit ratings. The Notes payable are traded and their fair values are based upon traded prices as of the reporting dates. As of January 31, 2015, the net carrying value of the Notes was $75.6 million.

	January 31, 2015	July 31, 2014
	(In thousands)	
Carrying amount of equity component (net of allocated debt issuance costs)	$ 27,177	$ 27,177
Principal amount of Notes	$ 100,000	$ 100,000
Unamortized debt discount	(24,440)	(26,609)
Net carrying amount	$ 75,560	$ 73,391

As of January 31, 2015, the remaining period over which the unamortized discount will be amortized is 49 months.

	Three Months Ended January 31, 2015	Six Months Ended January 31, 2015
	(In thousands)	
Interest expense related to contractual interest coupon	$ 1,313	$ 2,626
Interest expense related to accretion of the discount	1,142	2,169
Interest expense related to debt issuance costs	97	188
	$ 2,552	$ 4,983

During the three and six months ended January 31, 2015, we recognized interest expense of $2.5 million and $5.0 million, respectively. The effective interest rate on the Notes, including amortization of debt issuance costs and accretion of the debt discount, is 14.04%. The notes bear interest at a rate of 5.25%.

Wells Fargo Bank Credit Facility

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

On March 13, 2014, the Company entered into a Second Amendment to Credit Facility, which amended the Company s Credit Agreement, dated as of October 31, 2012, as amended by the First Amendment to Credit Agreement dated December 18, 2013. The Amendment modified certain provisions of the Credit Agreement that would have restricted or otherwise affected the issuance of the Notes and the use of proceeds therefrom, the conversion of the Notes into common stock of the Company, and the payment of interest on the Notes. Effective as of April 16, 2014, the Company voluntarily terminated the Credit Facility. The Company did not have any outstanding indebtedness related to the Credit Facility as of January 31, 2015.

PNC Bank Credit Facility

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

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

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

Obligations under the Credit Agreement are guaranteed by the Borrowers existing and future direct and indirect wholly-owned domestic subsidiaries, subject to certain limited exceptions; and the Credit Agreement is secured by security interests in substantially all the Borrowers assets and the assets of each subsidiary guarantor, whether owned as of the closing or thereafter acquired, including a pledge of 100.0% of the equity interests of each subsidiary guarantor that is a domestic entity (subject to certain limited exceptions) and 65.0% of the voting equity interests of

any direct first tier foreign entity owned by either Borrower or by a subsidiary guarantor. The Company is not a borrower or a guarantor under the Credit Agreement.

The Credit Agreement contains certain customary negative covenants, which include limitations on mergers and acquisitions, the sale of assets, liens, guarantees, investments, loans, capital expenditures, dividends, indebtedness, changes in the nature of business, transactions with affiliates, the creation of subsidiaries, changes in fiscal year and accounting practices, changes to governing documents, compliance with certain statutes, and prepayments of certain indebtedness. The Credit Agreement also contains certain customary affirmative covenants (including periodic reporting obligations) and events of default, including upon a change of control. The Credit Agreement requires compliance with certain financial covenants providing for maintenance of specified liquidity, maintenance of a minimum fixed charge coverage ratio and/or maintenance of a maximum leverage ratio following the occurrence of certain events and/or prior to taking certain actions, all as more fully described in the Credit Agreement. The Company believes that the Credit Agreement provides greater financial flexibility to the Company and the Borrowers and may enhance their ability to consummate one or several larger and/or more attractive acquisitions and should provide our clients and/or potential clients with greater confidence in the Company s and the Borrowers liquidity. During the three months ended January 31, 2015, the Company did not meet the criteria that would cause its financial covenants to be effective. As of January 31, 2015, the Company did not have any balance outstanding on the PNC Bank credit facility. As of July 31, 2014, the Company had $4.5 million outstanding on the PNC Bank credit facility. This balance is included in other current liabilities on the consolidated balance sheet.

(10) CONTINGENCIES

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

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

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

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

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

Each of the Securities Actions purports to be brought on behalf of those persons who purchased shares of the Company between September 26, 2007 through and including June 8, 2012 (the Class Period) and alleges that failure to timely disclose the issues raised in the June 11, 2012 Announcement during the Class Period rendered defendants public statements concerning the Company s financial condition materially false and misleading in violation of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder. On February 11, 2013, plaintiffs filed a consolidated amended complaint in the Securities Actions. The Company moved to dismiss the amended complaint on March 11, 2013. On March 26, 2014, following a November 8, 2013 hearing, the Court denied the Company s motion to dismiss, and, on May 26, 2014, the Company answered the Amended Complaint. In October 2014, the parties agreed to a stipulation for a proposed $4 million class settlement to be covered by insurance proceeds, subject to Court approval. On November 24, 2014, the Court entered an order preliminarily approving the proposed settlement, certification of the settlement class, and provision of notice of the settlement to the settling class. The Court held a final approval hearing for the settlement on March 11, 2015, at which the Court indicated that it would approve the settlement and enter an order as proposed by the parties. Once the Court has entered its order of final judgment, this matter will be concluded.

On October 15, 2014, a Company shareholder commenced a purported derivative action in the Court of Chancery of the State of Delaware against the Company, entitled Mohammad Ladjevardian v. Anthony Bergamo, Jeffrey J. Fenton, Glen M. Kassan, Warren G. Lichtenstein, Jeffrey S. Wald, and Philip E. Lengyel, Steel Partners Holdings L.P., Handy & Harman Ltd.; Defendants, And ModusLink Global Solutions, Inc., Nominal Defendant, C.A. No. 10237-VCL , and Steel Partners Holdings L.P. (Steel) Handy & Harman Ltd. The Plaintiff alleges that the individual Defendants breached their fiduciary duties to the Company, unjust enrichment, duty of disclosure, waste of corporate assets and aiding and abetting such breaches. On November 6, 2014, Defendants moved to dismiss the

Complaint for (i) failure to make a pre-suit demand upon the Board or sufficiently plead demand futility, and (ii) failure to state a claim upon which relief may be granted. The parties stipulated that all discovery concerning claims asserted in the Complaint shall be stayed pending resolution of the Motion to Dismiss. Although there can be no assurance to the ultimate outcome, the Company believes it has meritorious defense, will deny liability, and intends to defend this litigation vigorously.

On July 18, 2014, Scott R. Crawley (Crawley), a former executive officer of the Company, filed a Complaint against the Company in Massachusetts Superior Court in Middlesex County (the Court) alleging breach of contract and wrongful termination in violation of public policy and is seeking damages pursuant to a breach of his Executive Severance Agreement. The case is currently in the discovery phase. In furtherance of the case, Crawley has demanded that ModusLink indemnify him and advance expenses for all of his costs and expenses incurred as a result of this case and has filed a Preliminary Injunction with the Court to require ModusLink to immediately pay his attorney s fees and expenses. On December 4, 2014, ModusLink opposed Crawley s Motion for Preliminary Injunction and on December 16, 2014 the Court denied Crawley s motion. Discovery is ongoing.

On December 22, 2014, ModusLink received a letter from a major customer, which claimed that ModusLink was responsible for the theft of the customer s proprietary data from two of ModusLink s sites in China. The letter alleged that the customer had suffered significant losses as a result of the alleged theft. ModusLink has vigorously denied the allegations contained in the letter and continues to engage the customer in discussions regarding the matter. Based upon the information available at this time, the Company is not able to estimate a possible range of loss with respect to this matter. In the event that litigation is commenced and the customer prevails and wins a significant monetary judgment not fully covered by insurance, such an outcome could have a material adverse effect on the Company s financial condition.

(11) OTHER GAINS (LOSSES), NET

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2015	2014	2015	2014
	(In thousands)			
Foreign currency exchange gain (losses)	$ 1,726	$ 1,002	$ 2,430	$ (170)
Gain on disposal of assets	29	161	29	467
Other, net	(1,344)	(271)	779	(106)
	$ 411	$ 892	$ 3,238	$ 191

The Company recorded foreign exchange gains of approximately $1.7 million during the three months ended January 31, 2015, as compared to foreign exchange gains of approximately $1.0 million during the three months ended January 31, 2014. For the three months ended January 31, 2015, the net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately $0.3 million and $1.1 million in the Americas and Europe, respectively. For the three months ended January 31, 2014, the net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately $0.2 million and $1.0 million in the Americas and Europe, respectively.

During the three months ended January 31, 2015, the Company recognized $0.4 million in net non-cash losses associated with its Trading Securities. In addition to this, during the three months ended January 31, 2015, the Company recognized $0.8 million in net losses associated with short-term foreign currency contracts.

The Company recorded foreign exchange gains of approximately $2.4 million during the six months ended January 31, 2015, as compared to foreign exchange losses of approximately $0.2 million during the six months ended January 31, 2014. For the six months ended January 31, 2015, the net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately $0.4 million and $2.1 million in the Americas and Europe, respectively. For the six months ended January 31, 2014, the net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately $0.5 million in Asia, offset by realized and unrealized gains of approximately $0.2 million and $0.3 million in the Americas and Europe, respectively.

During the six months ended January 31, 2015, the Company recognized $2.1 million in net non-cash gains associated with its Trading Securities. In addition to this, during the six months ended January 31, 2015, the Company recognized $1.1 million in net losses associated with short-term foreign currency contracts.

(12) INCOME TAXES

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the three and six months ended January 31, 2015, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of January 31, 2015 and July 31, 2014, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately $1.1 million and $1.0 million, respectively.

Uncertain Tax Positions

In accordance with the Company s accounting policy, interest related to unrecognized tax benefits is included in the provision of income taxes line of the Consolidated Statements of Operations. As of January 31, 2015 and July 31, 2014, the liabilities for interest expense related to uncertain tax positions were immaterial. The Company did not accrue for penalties related to income tax positions as there were no income tax positions that required the Company to accrue penalties. The Company does not expect any unrecognized tax benefits to reverse in the next twelve months. The Company is subject to U.S. federal income tax and various state, local and international income taxes in numerous jurisdictions. The federal and state tax returns are generally subject to tax examinations for the tax years ended July 31, 2010 through July 31, 2014. To the extent the Company has tax attribute carryforwards, the tax year in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period. In addition, a number of tax years remain subject to examination by the appropriate government

agencies for certain countries in the Europe and Asia regions. In Europe, the Company s 2006 through 2013 tax years remain subject to examination in most locations, while the Company s 2002 through 2013 tax years remain subject to examination in most Asia locations.

Net Operating Loss

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

Tax Benefit Preservation Plan

On October 17, 2011, the Company s Board of Directors adopted a Tax Benefit Preservation Plan between the Company and American Stock Transfer & Trust Company, LLC, as rights agent (as amended from time to time, the Tax Plan). The Tax Plan reduces the likelihood that changes in the Company s investor base would have the unintended effect of limiting the Company s use of its Tax Benefits. The Tax Plan is intended to require any person acquiring shares of the Company s securities equal to or exceeding 4.99% of the Company s outstanding shares to obtain the approval of the Board of Directors. This would protect the Tax Benefits because changes in ownership by a person owning less than 4.99% of the Company s stock are considered and included in one or more public groups in the calculation of ownership change for purposes of Section 382 of the Code. On October 9, 2014, the Tax Plan was amended by our Board of Directors to extend the expiration of the Tax Plan until October 17, 2017, subject to stockholder approval at the Company s 2015 annual meeting of stockholders.

Protective Amendment

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

The Protective Amendment limits certain transfers of the Company s common stock (Common Stock), to assist the Company in protecting the long-term value of its accumulated NOLs. The Protective Amendment s transfer restrictions generally restrict any direct or indirect transfers of the Common Stock if the effect would be to increase the direct or indirect ownership of the Common Stock by any person (as defined in the Protective Amendment) from less than 4.99% to 4.99% or more of the Common Stock, or increase the percentage of the Common Stock owned directly or indirectly by a Person owning or deemed to own 4.99% or more of the Common Stock. Any direct or indirect transfer attempted in violation of the Protective Amendment will be void as of the date of the prohibited transfer as to the purported transferee. The Board of Directors of the Company has discretion to grant waivers to permit transfers otherwise restricted by the Protective Amendment.

In accordance with the Protective Amendment, Handy & Harman (HNH), a related party, requested, and the Company granted HNH and its affiliates, a waiver under the Protective Amendment to permit their acquisition of up to 45% of the Company s outstanding shares of Common Stock in the aggregate (subject to proportionate adjustment, the 45% Cap), in addition to acquisitions of Common Stock in connection with the exercise of certain warrants of the Company (the Warrants) held by Steel Partners Holdings L.P. (SPH), an affiliate of HNH, as well as a limited waiver under

Section 203 of the Delaware General Corporation Law for this purpose. Notwithstanding the foregoing, HNH and its affiliates (and any group of which HNH or any of its affiliates is a member) are not permitted to acquire securities that would result in an ownership change of the Company for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, that would have the effect of impairing any of the Company s NOLs. The foregoing waiver was approved by the independent directors of the Company.

(13) EARNINGS (LOSS) PER SHARE

The Company calculates earnings (loss) per share in accordance with ASC Topic 260, Earnings per Share. The following table reconciles earnings (loss) per share for the three and six months ended January 31, 2015 and 2014.

	Three Months Ended January 31,		Six Months Ended January 31,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Income from continuing operations	$ (1,556)	$ 1,063	$ (1,334)	$ 1,601
Income from discontinued operations		1		80
Net Income	$ (1,556)	$ 1,064	$ (1,334)	$ 1,681
Weighted average common shares outstanding	51,646	51,498	51,888	51,467
Weighted average common equivalent shares arising from dilutive stock options and restricted stock		313		72
Weighted average number of common and potential common shares	51,646	51,811	51,888	51,539
Basic net income per common share from:				
Continuing operations	$ (0.03)	$ 0.02	$ (0.03)	$ 0.03
Discontinued operations	0.00	0.00	0.00	0.00
	$ (0.03)	$ 0.02	$ (0.03)	$ 0.03
Diluted net income per common share from:				
Continuing operations	$ (0.03)	$ 0.02	$ (0.03)	$ 0.03
Discontinued operations	0.00	0.00	0.00	0.00
	$ (0.03)	$ 0.02	$ (0.03)	$ 0.03

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

For the three and six months ended January 31, 2015, approximately 21.6 million and 21.2 million, respectively, common stock equivalent shares were excluded from the denominator in the calculation of diluted earnings per share as their inclusion would have been antidilutive.

For the three and six months ended January 31, 2014, approximately 3.6 million and 5.5 million, respectively, common stock equivalent shares were excluded from the denominator in the calculation of diluted earnings per share as their inclusion would have been antidilutive.

(14) SHARE-BASED PAYMENTS

The following table summarizes share-based compensation expense related to employee stock options, employee stock purchases and non-vested shares for the three and six months ended January 31, 2015 and 2014, which was allocated as follows:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2015	2014	2015	2014
	(In thousands)			
Cost of revenue	$ 39	$ 117	$ 133	$ 233
Selling, general and administrative	407	521	722	917
	$ 446	$ 638	$ 855	$ 1,150

At January 31, 2015, there was approximately $2.9 million of total unrecognized compensation cost related to non-vested share-based compensation awards under the Company s plans.

(15) COMPREHENSIVE INCOME (LOSS)

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

Accumulated other comprehensive items consist of the following:

	Foreign currency items	Pension items	Unrealized gains (losses) on securities	Total
		(In thousands)		
Accumulated other comprehensive income at July 31, 2014	$ 15,833	$ (1,900)	$ 35	$ 13,968
Foreign currency translation adjustment	(7,154)			(7,154)
Pension liability adjustments		(811)		(811)
Net unrealized holding loss on securities			(6)	(6)
Net current-period other comprehensive income	(7,154)	(811)	(6)	(7,971)
Accumulated other comprehensive income at January 31, 2015	$ 8,679	$ (2,711)	$ 29	$ 5,997

(16) FOREIGN CURRENCY CONTRACTS

During the quarter ended October 31, 2014, the Company entered into foreign currency forward contracts to manage the foreign currency risk associated with anticipated foreign currency denominated transactions. As of January 31, 2015, the aggregate notional amount of the Company s outstanding foreign currency forward contracts was $19.8 million as summarized below:

	January 31, 2015	
Currency Contracts	Foreign Currency Amount	Notional Contract Value in USD
	(In thousands)	
Buy CNH	89,774	$ 14,477
Buy CZK	52,717	2,488
Buy EUR	2,145	2,785
		$ 19,750

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

(17) RELATED PARTY TRANSACTIONS

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

The Management Services Agreement was approved by a special committee of the Company s Board of Directors comprised entirely of independent directors (the Committee). SP Corporate will be subject to the supervision and control of the Committee while performing its obligations under the Management Services Agreement. The Management Services Agreement provides that the Company will pay SP Corporate a fixed monthly fee of $175,000 in consideration of the Services. The fees payable under the Management Services Agreement are subject to a review and such adjustments as may be agreed upon by SP Corporate and the Company. The Management Services Agreement will continue through June 30, 2015.

(18) DISCONTINUED OPERATIONS AND DIVESTITURES

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

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

(19) SEGMENT INFORMATION

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

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2015	2014	2015	2014
	(In thousands)			
Net revenue:				
Americas	$ 53,242	$ 78,787	$ 135,040	$ 155,362
Asia	45,493	47,530	88,448	92,920
Europe	40,626	56,751	95,041	117,367
All Other	8,949	10,943	17,225	19,777
	$ 148,310	$ 194,011	$ 335,754	$ 385,426
Operating income (loss):				
Americas	$ (139)	$ 2,080	$ 1,479	$ 5,568
Asia	4,677	5,808	8,030	11,659
Europe	(952)	(2,149)	(2,330)	(4,495)
All Other	361	(76)	522	509
Total Segment operating income	3,947	5,663	7,701	13,241
Corporate-level activity	(3,301)	(4,428)	(5,908)	(9,385)
Total operating income	646	1,235	1,793	3,856
Total other income (expense)	(1,853)	581	(1,629)	(231)
Income (loss) from continuing operations before income taxes	$ (1,207)	$ 1,816	$ 164	$ 3,625

	January 31, 2015	July 31, 2014
	(In thousands)	
Total assets:		
Americas	$ 54,575	$ 73,254
Asia	127,067	78,749
Europe	63,120	81,327
All Other	28,312	14,221
Sub-total - segment assets	273,074	247,551
Corporate	183,948	204,095
	$ 457,022	$ 451,646

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2015	2014	2015	2014
	(In thousands)			
Supply chain services	$ 122,972	$ 169,397	$ 288,378	$ 339,547
Aftermarket services	16,389	13,671	30,151	26,102
e-Business services	8,949	10,943	17,225	19,777
	$ 148,310	$ 194,011	$ 335,754	$ 385,426

As of January 31, 2015, approximately $16.2 million, $3.6 million and $3.9 million of the Company s long-lived assets were located in the U.S.A., Singapore and Ireland, respectively. As of July 31, 2014, approximately $19.3 million, $4.4 million and $4.7 million of the Company s long-lived assets were located in the U.S.A., Singapore and Ireland, respectively.

For the three months ended January 31, 2015, the Company s net revenues within U.S.A., China, Netherlands and Czech Republic were $54.3 million, $37.3 million, $14.8 million and $23.1 million, respectively. For the three months ended January 31, 2014, the Company s net revenues within U.S.A., China, Netherlands and Czech Republic were $79.1 million, $35.5 million, $30.0 million and $22.3 million, respectively.

For the six months ended January 31, 2015, the Company s net revenues within U.S.A., China, Netherlands and Czech Republic were $136.4 million, $72.1 million, $39.9 million and $48.8 million, respectively. For the six months ended January 31, 2014, the Company s net revenues within U.S.A., China, Netherlands and Czech Republic were $156.5 million, $68.3 million, $54.2 million and $53.0 million, respectively.

(20) FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES

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

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

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

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

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

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

The following tables presents the Company s financial assets measured at fair value on a recurring basis as of January 31, 2015 and July 31, 2014, classified by fair value hierarchy:

		Fair Value Measurements at Reporting Date Using		
(In thousands)	**January 31, 2015**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Marketable equity securities	$ 40,100	$ 40,100	$	$
Marketable corporate bonds	31,508	31,508		
Money market funds	78,704	78,704		

Liabilities:				
Foreign currency contracts	$ 1,054	$	$ 1,054	$

(In thousands)	July 31, 2014	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Assets:				
Marketable equity securities	$ 9,856	$ 9,856	$	$
Marketable corporate bonds	12,937	12,937		
Money market funds	150,626	150,626		
Liabilities:				
Foreign currency contracts	$	$	$	$

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

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

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

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

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

Fair Value of Financial Instruments

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

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

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

	As of January 31, 2015		As of July 31, 2014		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Fair Value Hierarchy
	(In thousands)				
Notes payable	75,560	90,875	73,391	93,750	Level 1

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

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

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

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

Overview

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

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

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

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

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

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

As a large portion of our revenue comes from outsourcing services provided to clients such as computer hardware manufacturers and consumer electronics companies, our operating performance has been and may continue to be adversely affected by declines in the overall performance of the technology sector and uncertainty affecting the world economy. In addition, the drop in consumer demand for products of certain clients has had and may continue to have the effect of reducing our volumes and adversely affecting our revenue performance. The markets for our services are generally very competitive. We also face pressure from our clients to

continually realize efficiency gains in order to help our clients maintain their profitability objectives. Increased competition and client demands for efficiency improvements may result in price reductions, reduced gross margins and, in some cases, loss of market share. In addition, our profitability varies based on the types of services we provide and the regions in which we perform them. Therefore, the mix of revenue derived from our various services and locations can impact our gross margin results. Also, form factor changes, which we describe as the reduction in the amount of materials and product components used in our clients completed packaged product, can also have the effect of reducing our revenue and gross margin opportunities. As a result of these competitive and client pressures the gross margins in our business are low. For the three months ended January 31, 2015 and 2014, our gross margin percentage was 11.3% and 11.6% respectively. For the six months ended January 31, 2015 and 2014, our gross margin percentage was 10.6% and 11.6% respectively. Increased competition as well as industry consolidation and/or low demand for our clients products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We generally manage margin and pricing pressures in several ways, including efforts to target new markets, expand our service offerings, improve the efficiency of our processes and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, consolidating facilities, and other actions designed to improve the productivity of our operations.

Historically, a limited number of key clients have accounted for a significant percentage of our revenue. For the three and six months ended January 31, 2015, sales to Hewlett-Packard accounted for approximately 6% and 19% of our net revenue, respectively. For the three and six months ended January 31, 2015, sales to GoPro accounted for approximately 21% and 17% of our net revenue, respectively. Our top ten clients collectively accounted for approximately 75% and 79% of our net revenue for the three and six months ended January 31, 2015. We expect to continue to derive the vast majority of our revenue from sales to a small number of key clients. In general, we do not have any agreements which obligate any client to buy a minimum amount of services from us or designate us as an exclusive service provider. Consequently, our net revenue is subject to demand variability by our clients. The level and timing of orders placed by our clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions.

For the three months ended January 31, 2015, the Company reported net revenue of $148.3 million, operating income of $0.6 million, loss from continuing operations before income taxes of $1.2 million and net loss of $1.6 million. For the six months ended January 31, 2015, the Company reported net revenue of $335.8 million, operating income of $1.8 million, income from continuing operations before income taxes of $0.2 million and net loss of $1.3 million. For the three months ended January 31, 2014, the Company reported net revenue of $194.0 million, operating income of $1.2 million, income from continuing operations before income taxes of $1.8 million and net income of $1.1 million. For the six months ended January 31, 2014, the Company reported net revenue of $385.4 million, operating income of $3.9 million, income from continuing operations before income taxes of $3.6 million and net income of $1.7 million. At January 31, 2015, we had cash and cash equivalents of $122.9 million, and working capital of $205.7 million.

Basis of Presentation

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

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

Results of Operations

Three months ended January 31, 2015 compared to the three months ended January 31, 2014

Net Revenue:

	Three Months Ended January 31, 2015	As a % of Total Net Revenue	Three Months Ended January 31, 2014	As a % of Total Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 53,242	35.9%	$ 78,787	40.6%	$ (25,545)	(32.4%)
Asia	45,493	30.7%	47,530	24.5%	(2,037)	(4.3%)
Europe	40,626	27.4%	56,751	29.3%	(16,125)	(28.4%)
All Other	8,949	6.0%	10,943	5.6%	(1,994)	(18.2%)
Total	$ 148,310	100.0%	$ 194,011	100.0%	$ (45,701)	(23.6%)

Net revenue decreased by approximately $45.7 million during the three months ended January 31, 2015, as compared to the same period in the prior year. This decrease was primarily a result of lower volumes from a major computing market client. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the quarter ended January 31, 2015. Revenue from new programs, which the Company defines as client programs that have been executed for fewer than 12 months, was $17.9 million during the second quarter of fiscal year 2015, as compared to $12.6 million during the second quarter of fiscal year 2014. The increase in revenue from new programs was primarily due to new programs in the consumer products markets. Base business, is defined as client programs that have been executed for 12 months or more.

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

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

During the three months ended January 31, 2015, net revenue in the Americas region decreased by approximately $25.5 million. This decrease resulted primarily from lower order volumes from a major computing market client. Within the Asia region, the net revenue decrease of approximately $2.0 million primarily resulted from lower order volumes from a few computing and software market clients, offset by higher revenue from consumer electronics clients. Within the Europe region, net revenue decreased by approximately $16.1 million primarily due to lower volumes from a major computing market client. Net revenue for All Other decreased by approximately $2.0 million primarily due to lower revenue from a consumer electronics client.

Cost of Revenue:

	Three Months Ended January 31, 2015	As a % of Segment Net Revenue	Three Months Ended January 31, 2014	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 49,529	93.0%	$ 72,947	92.6%	$ (23,418)	(32.1%)
Asia	36,572	80.4%	35,271	74.2%	1,301	3.7%
Europe	37,732	92.9%	53,162	93.7%	(15,430)	(29.0%)
All Other	7,883	88.1%	10,051	91.8%	(2,168)	(21.6%)
Total	$ 131,716	88.8%	$ 171,431	88.4%	$ (39,715)	(23.2%)

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services as well as costs for salaries and benefits, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the three months ended January 31, 2015 included materials procured on behalf of our clients of $74.5 million, or 50.3% of consolidated net revenue, as compared to $115.3 million, or 59.4% of consolidated net revenue for the same period in the prior year, a decrease of $40.7 million. Total cost of revenue decreased by $39.7 million for the three months ended January 31, 2015, as compared to the three months ended January 31, 2014, due to the decline in cost of materials associated with a major computing market client offset by an increase in costs associated with labor.

Gross margin for the second quarter of fiscal 2015 decreased to 11.2% from 11.6% in the prior year quarter, primarily as a result of decline in revenues, offset partially with the decline in cost of materials. For the three months ended January 31, 2015, the Company s gross margin percentages within the Americas, Asia and Europe regions were 7.0%, 19.6% and 7.1%, as compared to 7.4%, 25.8% and 6.3%, respectively, for the same period of the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on gross margin for the quarter ended January 31, 2015.

In the Americas, the 0.4 percentage point decrease in gross margin, from 7.4% to 7.0%, resulted from cost reductions in the Americas that were not enough to offset the impact on gross margin of lower net revenues. In Asia, the 6.2 percentage point decrease in gross margin, from 25.8% to 19.6%, was primarily the result of increased labor costs and reduction in revenues. In Europe, the 0.8 percentage point improvement in gross margin, from 6.3% to 7.1%, resulted from cost reductions. The gross margin for All other, which is comprised primarily of e-Business, was 11.9% for the three months ended January 31, 2015 as compared to 8.2% for the same period of the prior year. This increase of 3.7 percentage points was due to lower labor and material costs offset partially by the decrease in revenues.

Selling, General and Administrative Expenses:

	Three Months Ended January 31, 2015	As a % of Segment Net Revenue	Three Months Ended January 31, 2014	As a % of Segment Net Revenue	$ Change	% Change

			(In thousands)			
Americas	$ 3,374	6.3%	$ 3,292	4.2%	$ 82	2.5%
Asia	4,104	9.0%	6,148	12.9%	(2,044)	(33.2%)
Europe	3,397	8.4%	5,005	8.8%	(1,608)	(32.1%)
All Other	463	5.2%	699	6.4%	(236)	(33.8%)
Sub-total	11,338	7.6%	15,144	7.8%	(3,806)	(25.1%)
Corporate-level activity	3,301		4,428		(1,127)	(25.5%)
Total	$ 14,639	9.9%	$ 19,572	10.1%	$ (4,933)	(25.2%)

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, 2015 decreased by approximately $4.9 million compared to the three-month period ended January 31, 2014, primarily as a result of reduced employee-related costs ($2.1 million), professional fees ($1.7 million), including audit fees and various costs related to the financial restatement and a reduction in depreciation expense ($1.0 million). Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the quarter ended January 31, 2015.

Amortization of Intangible Assets:

	Three Months Ended January 31, 2015	As a % of Segment Net Revenue	Three Months Ended January 31, 2014	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 26	0.0%	$ 38	0.0%	$ (12)	(31.6%)
All Other	242	2.7%	242	2.2%		0.0%
Total	$ 268	0.2%	$ 280	0.1%	$ (12)	(4.3%)

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

Impairment of Long-lived Assets:

During the three month period ended January 31, 2014 the Company determined that the carrying value of an owned facility was not fully recoverable from future cash flows. The Company recorded an impairment charge of $0.5 million to adjust the carrying value to its estimated fair value. No impairment charges were recorded during the three month period ended January 31, 2015.

Restructuring, net:

	Three Months Ended January 31, 2015	As a % of Segment Net Revenue	Three Months Ended January 31, 2014	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 452	0.8%	$ 430	0.5%	$ 22	5.1%
Asia	140	0.3%	303	0.6%	(163)	(53.8%)
Europe	449	1.1%	233	0.4%	216	92.7%
All Other		0.0%	27	0.2%	(27)	(100.0%)
Total	$ 1,041	0.7%	$ 993	0.5%	$ 48	4.8%

The $1.0 million restructuring charge recorded during the three months ended January 31, 2015 primarily consisted of $0.4 million, $0.1 million and $0.5 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 72 employees in our global supply chain operations. The estimated savings on an annualized basis expected to result from these actions is approximately $2.2 million.

The $1.0 million restructuring charge recorded during the three months ended January 31, 2014 primarily consisted of approximately $0.4 million, $0.3 million and $0.3 million of employee-related costs in the Americas, Asia and

Europe, respectively, related to the workforce reduction of 35 employees in our global supply chain operations.

Interest Income/Expense:

During the three months ended January 31, 2015 and 2014, interest income was $0.4 million and $0.1 million, respectively. The increase in interest income is attributable to the acquisition of the Trading Securities during the previous quarters.

During the three months ended January 31, 2015 and 2014, interest expense totaled approximately $2.6 million and $0.2 million, respectively. In the current quarter, the interest expense primarily relates to the Company s issuance of $100 million of 5.25% Convertible Senior Notes during the third quarter of fiscal 2014. In the prior year, interest expense related primarily to the Company s stadium obligation.

Other Gains (Losses), net:

During the three months ended January 31, 2015, the Company recognized $0.4 million in net non-cash losses associated with its Trading Securities and recognized $0.8 million in net losses associated with short-term foreign currency contracts. In addition to this, the Company recorded foreign exchange gains of approximately $1.7 million during the three months ended January 31, 2015. These net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately $0.3 million, $1.1 million and $0.3 million in the Americas, Europe and the All Other reporting segment, respectively.

The Company recorded foreign exchange gains of approximately $1.0 million during the three months ended January 31, 2014. These net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately $0.2 million and $1.0 million in the Americas and Europe, respectively.

Impairment of Investments in Affiliates:

During the three months ended January 31, 2015, the Company did not record any impairment charges related to an investment in the @Ventures portfolio of companies. During the three months ended January 31, 2014, the Company recorded $0.2 million in impairment charges related to an investment in the @Ventures portfolio of companies. The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular investment s net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee s cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes and competition. The valuation process is based primarily on information that the Company requests from these privately held companies which are not subject to the same disclosure and audit requirements as those of U.S. public companies. As such, the reliability and the accuracy of the data may vary.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to volatility in our reported results of operations in the past and may negatively impact our results of operations in the future. We may incur impairment charges to our investments in privately held companies, which could have an adverse impact on our future results of operations. A decline in the carrying value of our $7.2 million of investments in affiliates at January 31, 2015 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by $0.7 million to $1.4 million.

Income Tax Expense:

During the three months ended January 31, 2015, the Company recorded income tax expense of approximately $0.6 million, as compared to income tax expense of $0.8 million for same period in the prior fiscal year. For the three months ended January 31, 2015 and 2014, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions.

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

Equity in Losses of Affiliates:

Equity in losses of affiliates results from the Company s minority ownership in certain investments through its @Ventures portfolio that are accounted for under the equity method. Under the equity method of accounting, the

Company s proportionate share of each affiliate s operating income or losses is included in equity in losses of affiliates.

During the three months ended January 31, 2015 there were $0.2 million in equity gains in affiliates. During the three months ended January 31, 2014, there were no equity gains or losses in affiliates recorded. During the three months ended January 31, 2015, the Company received $0.4 million in distributions from its investments in affiliates. No distributions were received during the three months ended January 31, 2014.

Results of Operations

Six months ended January 31, 2015 compared to the six months ended January 31, 2014

Net Revenue:

	Six Months Ended January 31, 2015	As a % of Total Net Revenue	Six Months Ended January 31, 2014	As a % of Total Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 135,040	40.2%	$ 155,362	40.3%	$ (20,322)	(13.1%)
Asia	88,448	26.3%	92,920	24.1%	(4,472)	(4.8%)
Europe	95,041	28.3%	117,367	30.5%	(22,326)	(19.0%)
All Other	17,225	5.2%	19,777	5.1%	(2,552)	(12.9%)
Total	$ 335,754	100.0%	$ 385,426	100.0%	$ (49,672)	(12.9%)

Net revenue decreased by approximately $49.7 million during the six months ended January 31, 2015, as compared to the same period in the prior year. This decrease was primarily a result of lower volumes from a major computing market client. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the six months ended January 31, 2015. Revenue from new programs, which the Company defines as client programs that have been executed for fewer than 12 months, was $30.9 million during the six months ended January 31, 2015, as compared to $26.5 million during the six months ended January 31, 2014. The increase in revenue from new programs was primarily due to the addition of client programs associated with consumer electronics markets. Base business is defined as client programs that have been executed for 12 months or more.

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

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

During the six months ended January 31, 2015, net revenue in the Americas region decreased by approximately $20.3 million. This decrease occurred primarily as a result of lower volumes from a major computing market client partially offset by increased revenue from a consumer electronics client. Within the Asia region, the net revenue decrease of approximately $4.5 million primarily resulted from lower volumes from a few computing and software markets clients partially offset by increased revenue from a consumer electronics client. Within the Europe region, net revenue decreased by approximately $22.3 million primarily resulted from lower volumes from computing and consumer electronics markets clients, partially offset by increased revenue from a consumer electronics client. Net revenue for All Other decreased by approximately $2.6 million, primarily due to lower revenues from consumer electronics and computing markets clients.

Cost of Revenue:

	Six Months Ended January 31, 2015	As a % of Segment Net Revenue	Six Months Ended January 31, 2014	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 125,562	93.0%	$ 142,643	91.8%	$ (17,081)	(12.0%)
Asia	70,864	80.1%	69,706	75.0%	1,158	1.7%
Europe	88,700	93.3%	111,002	94.6%	(22,302)	(20.1%)
All Other	15,196	88.2%	17,500	88.5%	(2,304)	(13.2%)
Total	$ 300,322	89.4%	$ 340,851	88.4%	$ (40,529)	(11.9%)

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 for the six months ended January 31, 2015 included materials procured on behalf of our clients of $189.9 million, or 56.6% of consolidated net revenue, as compared to $228.9 million, or 59.4% of consolidated net revenue for the same period in the prior year, a decrease of $38.9 million. Total cost of revenue decreased by $40.5 million for the six months ended January 31, 2015, as compared to the six months ended January 31, 2014, primarily due to the decline in cost of materials associated with a major computing market client and the reduction in other costs of revenues primarily due to restructuring activities.

Gross margin decreased to 10.6% for the six months ended January 31, 2015, from 11.6% for the six months ended January 31, 2014, primarily as a result of reduction in revenue, partially offset by the reduction in cost of materials. For the six months ended January 31, 2015, the Company s gross margin percentages within the Americas, Asia and Europe regions were 7.0%, 19.9% and 6.7%, as compared to 8.2%, 25.0% and 5.4%, respectively, for the same period of the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on gross margin for the six months ended January 31, 2015.

In the Americas, the 1.2 percentage point decrease in gross margin, from 8.2% to 7.0%, resulted from higher labor costs, partially offset by lower costs of materials. In Asia, the 5.1 percentage point decrease, from 25.0% to 19.9% was primarily the result of increased labor costs and a reduction in revenues. In Europe, the 1.3 percentage point improvement in gross margin, from 5.4% to 6.7%, resulted from the favorable impact of cost reductions. The gross margin for All other, which is comprised primarily of e-Business, was 11.8% for the six months ended January 31, 2015 as compared to 11.5% for the same period of the prior year. This improvement of 0.3 percentage points was due to lower labor and material costs offset partially by the decrease in revenues.

Selling, General and Administrative Expenses:

	Six Months Ended January 31, 2015	As a % of Segment Net Revenue	Six Months Ended January 31, 2014	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 7,081	5.2%	$ 6,478	4.2%	$ 603	9.3%
Asia	8,909	10.1%	11,130	12.0%	(2,221)	(20.0%)
Europe	7,240	7.6%	9,440	8.0%	(2,200)	(23.3%)
All Other	1,023	5.9%	1,254	6.3%	(231)	(18.4%)
Sub-total	24,253	7.2%	28,302	7.3%	(4,049)	(14.3%)
Corporate-level activity	5,908		9,385		(3,477)	(37.0%)
Total	$ 30,161	9.0%	$ 37,687	9.8%	$ (7,526)	(20.0%)

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, 2015 decreased by approximately $7.5 million compared to the six-month period ended January 31, 2014, primarily as a result of reduced employee-related costs ($3.3 million) related to restructuring, professional fees ($3.3 million) including audit fees and various costs related to the financial restatement and a reduction in depreciation expense ($0.9 million). Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the six months ended January 31, 2015.

Amortization of Intangible Assets:

	Six Months Ended January 31, 2015	As a % of Segment Net Revenue	Six Months Ended January 31, 2014	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 52	0.0%	$ 76	0.0%	$ (24)	(31.6%)
All Other	484	2.8%	484	2.4%		0.0%
Total	$ 536	0.2%	$ 560	0.1%	$ (24)	(4.3%)

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

Impairment of Long-lived Assets:

During the six-month period ended January 31, 2014 the Company determined that the carrying value of an owned facility was not fully recoverable from future cash flows. The Company recorded an impairment charge of $0.5 million to adjust the carrying value to its estimated fair value. No impairment charges were recorded during the six-month period ended January 31, 2015.

Restructuring, net:

	Six Months Ended January 31, 2015	As a % of Segment Net Revenue	Six Months Ended January 31, 2014	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 866	0.6%	$ 597	0.4%	$ 269	45.1%
Asia	645	0.7%	425	0.5%	220	51.8%
Europe	1,431	1.5%	920	0.8%	511	55.5%
All Other		0.0%	30	0.2%	(30)	(100.0%)
Total	$ 2,942	0.9%	$ 1,972	0.5%	$ 970	49.2%

The $2.9 million restructuring charge recorded during the six months ended January 31, 2015 primarily consisted of approximately $0.9 million, $0.7 million, and $1.4 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 165 employees in our global supply chain operations. The estimated savings on an annualized basis expected to result from these actions is approximately $6.3 million.

The $2.0 million restructuring charge recorded during the six months ended January 31, 2014 primarily consisted of approximately $0.6 million $0.4 million, and $0.9 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 84 employees in our global supply chain operations.

Interest Income/Expense:

During the six months ended January 31, 2015 and 2014, interest income was $0.4 million and $0.2 million, respectively. The increase in interest income is attributable to the acquisition of the Trading Securities during the previous quarters.

During the six months ended January 31, 2015 and 2014, interest expense totaled approximately $5.3 million and $0.4 million, respectively. During the current year, the interest expense primarily relates to the Company s issuance of $100 million of 5.25% Convertible Senior Notes during the third quarter of fiscal 2014. In the prior year, interest expense related primarily to the Company s stadium obligation.

Other Gains (Losses), net:

During the six months ended January 31, 2015, the Company recognized $2.1 million in net non-cash gains associated with its Trading Securities. In addition to this, during the six months ended January 31, 2015, the Company recognized $1.1 million in net losses associated with short-term foreign currency contracts. The Company also recorded foreign exchange gains of approximately $2.4 million during the six months ended January 31, 2015. These net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately $0.4 million and $2.1 million in the Americas and Europe, respectively.

During the six months ended January 31, 2014, the Company had gains on sales of fixed assets of $0.4 million. The Company also recorded foreign exchange losses of approximately $0.2 million during the six months ended January 31, 2014. These net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately $0.5 million in Asia, offset by realized and unrealized gains of approximately $0.2 million and $0.3 million in the Americas and Europe, respectively.

Impairment of Investments in Affiliates:

During the six months ended January 31, 2015, no impairment charges were recorded in the Company s investments in the @Ventures portfolio of companies. During the six months ended January 31, 2014, the Company recorded $0.2 million in impairment charges related to its investment in the @Ventures portfolio of companies. The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular investment s net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee s cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes and competition. The valuation process is based primarily on information that the Company requests from these privately held companies which are not subject to the same disclosure and audit requirements as those of U.S. public companies. As such, the reliability and the accuracy of the data may vary.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to volatility in our reported results of operations in the past and may negatively impact our results of operations in the future. We may incur impairment charges to our investments in privately held companies, which could have an adverse impact on our future results of operations. A decline in the carrying value of our $7.2 million of investments in affiliates at January 31, 2015 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by $0.7 million to $1.4 million.

Income Tax Expense:

During the six months ended January 31, 2015, the Company recorded income tax expense of approximately $1.7 million. During the six months ended January 31, 2014, the Company recorded income tax expense of approximately $1.9 million. For the six months ended January 31, 2015 and 2014, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions.

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

Equity in Gains (Losses) of Affiliates:

Equity in losses of affiliates results from the Company s minority ownership in certain investments through its @Ventures portfolio that are accounted for under the equity method. Under the equity method of accounting, the Company s proportionate share of each affiliate s operating income or losses is included in equity in losses of affiliates. Equity in gains (losses) of affiliates was $0.2 million and $(0.1) million for the six months ended January 31, 2015 and 2014, respectively.

During the six months ended January 31, 2015, the Company received a distribution from its investments in the amount of $0.4 million. No distributions were received during the six months ended January 31, 2014.

Liquidity and Capital Resources

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of our securities and borrowings from lending institutions. As of January 31, 2015, the Company s primary sources of liquidity consisted of cash and cash equivalents of $122.9 million. As of January 31, 2015, the Company had approximately $29.2 million of cash and cash equivalents held outside of the U.S. Of this amount, approximately $3.8 million is considered permanently invested due to certain restrictions under local laws, and $25.4 million is not subject to permanent reinvestment. Due to the Company s U.S. net operating loss carryforward there is no U.S. tax payable upon repatriating the undistributed earnings of foreign subsidiaries considered not subject to permanent investment. Foreign withholding taxes would range from 0% to 10% on any repatriated funds.

On June 30, 2014, two direct and wholly owned subsidiaries of the Company (the Borrowers) entered into a revolving credit and security agreement (the Credit Agreement), as borrowers and guarantors, with PNC Bank and National Association, as lender and as agent, respectively. The Credit Agreement has a five (5) year term which expires on June 30, 2019. It includes a maximum credit commitment of $50.0 million, is available for letters of credit (with a sublimit of $5.0 million) and has a $20.0 million uncommitted accordion feature. The actual maximum credit available under the Credit Agreement varies from time to time and is determined by calculating the applicable borrowing base, which is based upon applicable percentages of the values of eligible accounts receivable and eligible inventory minus reserves determined by the Agent (including other reserves that the Agent may establish from time to time in its permitted discretion), all as specified in the Credit Agreement. As of January 31, 2015 the Company did not have any balance outstanding on the Credit Agreement. As of July 31, 2014, the Company had $4.5 million outstanding on the Credit Agreement.

Consolidated working capital was $205.6 million at January 31, 2015, compared with $207.2 million at July 31, 2014. Included in working capital were cash and cash equivalents of $122.9 million at January 31, 2015 and $183.5 million at July 31, 2014.

Net cash provided by operating activities of continuing operations was $19.5 million for the six months ended January 31, 2015, as compared to $0.5 million in the prior year period. The $18.9 million increase in net cash used in operating activities of continuing operations as compared with the same period in the prior year was due to the decrease in inventory related to the exit of a program by a client in the computing market offset by increased working capital requirements as a result of seasonal activity. During the six months ended January 31, 2015, non-cash items within net cash provided by operating activities included depreciation expense of $4.7 million, share-based compensation of $0.9 million, amortization of intangible assets of $0.5 million, amortization of deferred financing costs of $0.3 million, accretion of debt discount of $2.1 million, non-operating gains, net, of $3.2 million and equity in gains of affiliates and impairment of $0.2 million. During the six months ended January 31, 2014, non-cash items within net cash provided by operating activities included depreciation expense of $6.6 million, share-based compensation of $1.2 million, amortization of intangible assets of $0.6 million, impairment of long-lived assets of $0.5 million, amortization of deferred financing costs of $0.2 million, non-operating gain, net, of $0.2 million and equity in losses of affiliates and impairments of $0.3 million.

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

Investing activities of continuing operations used cash of $72.8 million and $2.1 million during the six months ended January 31, 2015 and 2014, respectively. The $72.8 million of cash used in investing activities during the six months ended January 31, 2015 was comprised of $69.2 million in purchase of Trading Securities and $3.8 million in capital expenditures. The $2.1 million of cash used in investing activities during the six months ended January 31, 2014 was comprised of $1.7 million in capital expenditures and $0.4 million of investments in affiliates.

Cash flows used in financing activities of continuing operations during the six months ended January 31, 2015 primarily related to the $4.5 million in net repayments for the Company s revolving line of credit.

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

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

A summary of the Company s contractual obligations is included in the Company s Annual Report on Form 10-K for the fiscal year ended July 31, 2014. The Company s contractual obligations and other commercial commitments did not change materially between July 31, 2014 and January 31, 2015. The Company s gross liability for unrecognized tax benefits and related accrued interest was approximately $1.2 million as of January 31, 2015. 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, 2015, the Company had no recorded liabilities with respect to these arrangements.

Critical Accounting Policies

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

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

During the six months ended January 31, 2015, we believe that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in the Critical Accounting Policies section of Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk

Effective as of April 16, 2014, the Company voluntarily terminated its Wells Fargo Credit Facility. The Company did not have any outstanding indebtedness related to the Credit Facility as of January 31, 2015. As of January 31, 2015 the Company did not have any balance outstanding on the PNC Bank credit facility. As of July 31, 2014, the Company had $4.5 million outstanding on the PNC Bank credit facility.

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

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

Investment Risk

We are exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. As of January 31, 2015 the Company had $71.6 million in investments in trading securities. Had the market price of such securities been 10% lower at January 31, 2015, the aggregate value of such securities would have been $7.2 million lower.

Foreign Currency Risk

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

During the quarter ended October 31, 2014, the Company entered into foreign currency forward contracts to manage the foreign currency risk associated with anticipated foreign currency denominated transactions. As of January 31,

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

Revenues from our foreign operating segments accounted for approximately 54.6% of total revenues during both the six months ended January 31, 2015 and 2014. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.

The primary foreign currencies in which the Company operates include Chinese Renminbi, Euros, Czech Koruna and Singapore Dollars. The income statements of our international operations that are denominated in foreign currencies are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar weakens against foreign currencies, the

translation of these foreign currency-denominated transactions results in increased revenues and operating expenses for our international operations. Similarly, our revenues and operating expenses will decrease for our international operations when the U.S. dollar strengthens against foreign currencies. While we attempt to balance local currency revenue to local currency expenses to provide in effect a natural hedge, it is not always possible to completely reduce the foreign currency exchange rate risk due to competitive and other reasons.

The conversion of the foreign subsidiaries financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income (loss). For the three months ended January 31, 2015 and 2014, we recorded a foreign currency translation loss of approximately $4.5 million and $2.1 million, respectively. For the six months ended January 31, 2015 and 2014, we recorded a foreign currency translation loss of approximately $7.2 million and $0.1 million, respectively, which is recorded within accumulated other comprehensive income in stockholders equity in our condensed consolidated balance sheet. In addition, certain of our subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity s functional currency. Changes in the relative exchange rates between the currencies result in remeasurement gains or losses at each balance sheet date and transaction gains or losses upon settlement. For the three and six months ended January 31, 2015, we recorded net realized and unrealized foreign currency transaction and remeasurement gains of approximately $1.7 million and $2.4 million, respectively, which are recorded in Other gains (losses), net in our condensed consolidated statements of operations.

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

Item 4. Controls and Procedures.

Disclosure Controls and Procedures.

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

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended January 31, 2015 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.

From time to time, we may become involved in litigation relating to claims arising out of operations in the normal course of business, which we consider routine and incidental to our business. An unfavorable outcome that differs materially from current reserve estimates for one or more of the matters described in Note 10 could have a material adverse effect on the company s financial position as well as its results of operations and cash flows.

Item 1A. Risk Factors.

There have not been any material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended July 2014. In addition to the other information set forth in this report, you should carefully consider the risks and uncertainties discussed in Part I, Item 1A. Risk Factors discussed in our Annual Report, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be not material also may materially and adversely affect our business, financial condition and/or operating results.

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

The following table provides information about purchases by the Company of its common stock during the quarter ended January 31, 2015:

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, 2014 November 30, 2014	215[1]	$ 5.28		$
December 1, 2014 December 31, 2014	[1]	$		
January 1, 2015 January 31, 2015	[1]	$		

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

Item 6. Exhibits.

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

SIGNATURE

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

MODUSLINK GLOBAL SOLUTIONS, INC.

Date: March 12, 2015

By: /S/ JOSEPH B. SHERK
Joseph B. Sherk

Principal Financial Officer

and Principal Accounting Officer

EXHIBIT INDEX

3.1	Amendment to the Restated Certificate of Incorporation. incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed January 5, 2015.
3.2	Certificate of Amendment of the Restated Certificate of Incorporation of ModusLink Global Solutions, Inc. (Effecting the Reverse Split), filed with the Secretary of State of the State of Delaware on January 16, 2015, incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed January 22, 2015.
3.3	Certificate of Amendment of the Restated Certificate of Incorporation of ModusLink Global Solutions, Inc. (Effecting the Forward Split), filed with the Secretary of State of the State of Delaware on January 16, 2015, incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K filed January 22, 2015.
4.1	Amendment No. 3, dated December 31, 2014, to Tax Benefit Preservation Plan between ModusLink Global Solutions, Inc. and American Stock Transfer & Trust Company, LLC, as rights agent incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed January 5, 2015.
4.2	Specimen Certificate of Common Stock of the Registrant, incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed January 22, 2015.
10.1	Amendment No. 1 to Settlement Agreement, dated January 5, 2015, between ModusLink Global Solutions, Inc. and Handy & Harman Ltd. incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed January 5, 2015.
10.2	Management Services Agreement, dated as of January 1, 2015, by and between SP Corporate Services LLC and ModusLink Global Solutions, Inc., incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed December 31, 2014.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Principal Financial Officer 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, 2015 and July 31, 2014, (ii) Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months ended January 31, 2015 and 2014, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months ended January 31, 2015 and 2014 (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months ended January 31, 2015 and 2014 and (v) Notes to Unaudited Condensed Consolidated Financial Statements.