

ModusLink Global Solutions Inc  
Form 10-Q  
January 11, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended October 31, 2012

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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**1601 Trapelo Road**

**Waltham, Massachusetts**  
(Address of principal executive offices)

**02451**  
(Zip Code)

**(781) 663-5000**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of January 4, 2013, there were 43,841,024 shares issued and outstanding of the registrant's Common Stock, \$.01 par value per share.

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**MODUSLINK GLOBAL SOLUTIONS, INC.**

**FORM 10-Q**

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	<b>October 31, 2012</b>	<b>July 31, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 58,355	\$ 52,369
Available-for-sale securities	130	131
Accounts receivable, trade, net of allowance for doubtful accounts of \$338 and \$344, at October 31, 2012 and July 31, 2012, respectively	164,707	148,931
Inventories, net	89,793	83,990
Prepaid expenses and other current assets	10,323	10,466
Total current assets	323,308	295,887
Property and equipment, net	39,951	40,772
Investments in affiliates	11,080	10,803
Goodwill	3,058	3,058
Other intangible assets, net	2,612	2,897
Other assets	6,686	5,465
Total assets	\$ 386,695	\$ 358,882
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current installments of obligations under capital leases	\$ 93	\$ 73
Accounts payable	141,630	110,520
Current portion of accrued restructuring	1,751	1,724
Accrued income taxes	335	
Accrued expenses	46,074	41,753
Other current liabilities	26,542	26,778
Current liabilities of discontinued operations	1,393	1,528
Total current liabilities	217,818	182,376
Obligations under capital leases, less current installments	72	69
Other long-term liabilities	10,627	11,012
Non-current liabilities of discontinued operations	101	293
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at October 31, 2012 and July 31, 2012		
Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 43,819,857 issued and outstanding shares at October 31, 2012; 43,926,622 issued and outstanding shares at July 31, 2012	438	439
Additional paid-in capital	7,390,375	7,390,027
Accumulated deficit	(7,247,435)	(7,236,775)
Accumulated other comprehensive income	14,699	11,441
Total stockholders' equity	158,077	165,132

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Total liabilities and stockholders' equity	\$ 386,695	\$ 358,882
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See accompanying notes to unaudited condensed consolidated financial statements

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

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended October 31,	
	2012	2011 (As Restated)
Net revenue	\$ 200,656	\$ 205,908
Cost of revenue	181,973	180,437
Gross profit	18,683	25,471
Operating expenses:		
Selling, general and administrative	25,024	22,198
Amortization of intangible assets	285	332
Restructuring, net	1,479	755
Total operating expenses	26,788	23,285
Operating income (loss)	(8,105)	2,186
Other income (expense):		
Interest income	78	122
Interest expense	(99)	(90)
Other gains (losses), net	(1,319)	1,225
Equity in losses of affiliates and impairments	(310)	(427)
Total other income (expense)	(1,650)	830
Income (loss) from continuing operations before income taxes	(9,755)	3,016
Income tax expense	909	1,871
Income (loss) from continuing operations	(10,664)	1,145
Discontinued operations, net of income taxes:		
Income from discontinued operations	4	
Net income (loss)	\$ (10,660)	\$ 1,145
Basic and diluted earnings (loss) per share:		
Income (loss) from continuing operations	\$ (0.24)	\$ 0.03
Income from discontinued operations		
Net income (loss)	\$ (0.24)	\$ 0.03
Shares used in computing basic earnings per share:	43,589	43,315
Shares used in computing diluted earnings per share:	43,589	43,318

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See accompanying notes to unaudited condensed consolidated financial statements

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

(in thousands)

(Unaudited)

	Three Months Ended October 31,	
	2012	2011 (As Restated)
Net income (loss)	\$ (10,660)	\$ 1,145
Other comprehensive income (loss):		
Foreign currency translation adjustment	3,259	(2,927)
Net unrealized holding gain (loss) on securities	(1)	2
	3,258	(2,925)
Comprehensive loss	\$ (7,402)	\$ (1,780)

See accompanying notes to unaudited condensed consolidated financial statements



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

(in thousands)

(Unaudited)

	Three Months Ended October 31,	
	2012	2011 (As Restated)
Cash flows from operating activities of continuing operations:		
Net income (loss)	\$ (10,660)	\$ 1,145
Income from discontinued operations	4	
Income (loss) from continuing operations	(10,664)	1,145
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation	3,618	3,748
Amortization of intangible assets	285	332
Share-based compensation	493	882
Non-operating (gains) losses, net	1,319	(1,225)
Equity in losses of affiliates and impairments	310	427
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(12,585)	(42,894)
Inventories	(3,300)	(18,689)
Prepaid expenses and other current assets	(53)	315
Accounts payable, accrued restructuring and accrued expenses	31,516	57,000
Refundable and accrued income taxes, net	(4,867)	645
Other assets and liabilities	2,708	3,548
Net cash provided by operating activities of continuing operations	8,780	5,234
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(2,134)	(1,750)
Change in restricted cash	(691)	
Investments in affiliates	(586)	(1,052)
Net cash used in investing activities of continuing operations	(3,411)	(2,802)
Cash flows from financing activities of continuing operations:		
Repayments on capital lease obligations	(31)	(29)
Proceeds from issuance of common stock		29
Repurchase of common stock	(147)	(173)
Net cash used in financing activities of continuing operations	(178)	(173)
Cash flows from discontinued operations:		
Operating cash flows	(312)	(386)
Net cash used in discontinued operations	(312)	(386)

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Net effect of exchange rate changes on cash and cash equivalents	1,107	(1,572)
Net increase in cash and cash equivalents	5,986	301
Cash and cash equivalents at beginning of period	52,369	111,225
Cash and cash equivalents at end of period	\$ 58,355	\$ 111,526

See accompanying notes to unaudited condensed consolidated financial statements

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**(1) NATURE OF OPERATIONS**

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

The Company had fiscal 2012 revenue of approximately \$739.9 million. The Company has an integrated network of strategically located facilities in various countries, including numerous sites throughout North America, Europe and Asia. The Company previously operated under the names CMGI, Inc. and CMG Information Services, Inc. and was incorporated in Delaware in 1986.

**(2) BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2012, which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on January 11, 2013. The results for the three months ended October 31, 2012 are not necessarily indicative of the results to be expected for the full fiscal year.

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the period ended October 31, 2012, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

**(3) RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

On February 15, 2012, the Division of Enforcement of the Securities and Exchange Commission (SEC) initiated with the Company an informal inquiry, and later a formal action, regarding the Company's treatment of rebates associated with volume discounts provided by vendors (the SEC Inquiry).

On March 12, 2012, in its Form 10-Q for the quarterly period ended January 31, 2012, the Company announced the pendency of the SEC Inquiry.

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

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cost and price terms applicable to any particular client relationship can vary across client programs and products, at different periods in time, and based on the locations from which a client may be serviced.

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

As previously reported in the Company's Current Report on Form 8-K dated June 9, 2012, the Audit Committee, in consultation with management and the Board of Directors, concluded that the Company's previously issued financial statements for the fiscal years ended July 31, 2009 through 2011 and the first two quarters of fiscal year 2012, and selected unaudited financial data for fiscal years 2007 and 2008, should no longer be relied upon. Accordingly, the Company's consolidated financial statements for the fiscal years ended July 31, 2011, 2010 and 2009 have been restated.

Several principal adjustments were made to historic financial statements as a result of the restatement. Where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract (collectively referred to as pricing adjustments), the Company concluded that these amounts were not properly recorded as revenue. Accordingly, revenue was reduced by an equivalent amount for the period that the rebate was estimated to have affected. A corresponding liability for the same amount was recorded in that period (referred to as accrued pricing liabilities), which decreased working capital in the period. The Company believes that it may not ultimately be required to pay the accrued pricing liabilities, due in part to the nature of the interactions with its clients. When, and to the extent that, the Company is able to conclude that the accrued pricing liabilities have been extinguished for less than the amounts accrued, the Company will record the difference as other income. In the course of its business with certain clients, the Company has received releases of claims from such clients which have resulted in the Company concluding that the accrued pricing liabilities for those clients have been extinguished. For the three months ended October 31, 2012 and 2011, no accrued pricing liabilities were extinguished. The remaining accrued pricing liabilities at October 31, 2012 will be derecognized when there is sufficient information for the Company to conclude that such liabilities have been extinguished, which may occur through payment, legal release, or other legal or factual determination.

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

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

The restatement adjustments decreased revenues by \$0.2 million, decreased net income by \$24 thousand, and did not change basic and diluted earnings per share, which remained at \$0.03 for the three months ended October 31, 2011.

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The effects of the restatement adjustments on the Company's unaudited condensed consolidated statements of operations for the three months ended October 31, 2011 are as follows:

	Three months ended October 31, 2011 (Unaudited)			As Restated
	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	
Net revenue	\$ 206,151	(417)	174	\$ 205,908
Cost of revenue	180,658		(221)	180,437
<b>Gross profit</b>	<b>25,493</b>	<b>(417)</b>	<b>395</b>	<b>25,471</b>
Operating expenses:				
Selling, general and administrative	22,198			22,198
Amortization of intangible assets	332			332
Impairment of goodwill and long-lived assets				
Restructuring, net	755			755
<b>Total operating expenses</b>	<b>23,285</b>			<b>23,285</b>
Operating income (loss)	2,208	(417)	395	2,186
Other income (expense):				
Interest income	122			122
Interest expense	(88)		(2)	(90)
Other gains	1,225			1,225
Equity in losses of affiliates and impairments	(427)			(427)
	832		(2)	830
Income (loss) from continuing operations before income taxes	3,040	(417)	393	3,016
Income tax expense	1,871			1,871
Income (loss) from continuing operations	1,169	(417)	393	1,145
Discontinued operations, net of income taxes:				
Income (loss) from discontinued operations				
Net income (loss)	\$ 1,169	\$ (417)	\$ 393	\$ 1,145
Basic and diluted income (loss) per share:				
Income (loss) from continuing operations	\$ 0.03	\$ (0.01)	\$ 0.01	\$ 0.03
Income (loss) from discontinued operations				
Net income (loss)	\$ 0.03	\$ (0.01)	\$ 0.01	\$ 0.03
Shares used in computing basic loss per share:	43,315			43,315
Shares used in computing diluted loss per share:	43,318			43,318

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The effects of the restatement adjustments on the Company's unaudited condensed consolidated statement of cash flows for the three months ended October 31, 2011 are as follows:

	Three months ended October 31, 2011 (Unaudited)			As Restated
	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	
<b>Cash flows from operating activities of continuing operations:</b>				
Net income	\$ 1,169	\$ (417)	\$ 393	\$ 1,145
<b>Adjustments to reconcile net income to net cash provided by continuing operations:</b>				
Depreciation	3,735		13	3,748
Amortization of intangible assets	332			332
Share-based compensation	882			882
Non-operating gains, net	(1,225)			(1,225)
Equity in losses of affiliates and impairments	427			427
<b>Changes in operating assets and liabilities:</b>				
Trade accounts receivable, net	(42,894)			(42,894)
Inventories	(18,470)		(219)	(18,689)
Prepaid expenses and other current assets	315			315
Accounts payable, accrued restructuring and accrued expenses	57,000			57,000
Refundable and accrued income taxes, net	645			645
Other assets and liabilities	3,304	417	(173)	3,548
<b>Net cash provided by operating activities of continuing operations</b>	<b>5,220</b>		<b>14</b>	<b>5,234</b>
<b>Cash flows from investing activities of continuing operations:</b>				
Additions to property and equipment	(1,750)			(1,750)
Investments in affiliates	(1,052)			(1,052)
<b>Net cash used in investing activities of continuing operations</b>	<b>(2,802)</b>			<b>(2,802)</b>
<b>Cash flows from financing activities of continuing operations:</b>				
Repayments on capital lease obligations	(15)		(14)	(29)
Proceeds from issuance of common stock	29			29
Repurchase of common stock	(173)			(173)
<b>Net cash used in financing activities of continuing operations</b>	<b>(159)</b>		<b>(14)</b>	<b>(173)</b>
<b>Cash flows from discontinued operations:</b>				
Operating cash flows	(386)			(386)
<b>Net cash used in discontinued operations</b>	<b>(386)</b>			<b>(386)</b>
	(1,572)			(1,572)

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Net effect of exchange rate changes on cash and cash equivalents

Net increase in cash and cash equivalents	301			301
Cash and cash equivalents at beginning of year	111,225			111,225
Cash and cash equivalents at end of year	\$ 111,526	\$	\$	\$ 111,526

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There are no recent accounting pronouncements that have a significant impact on our results of operations, financial position or cash flows.

**(5) GOODWILL**

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

The Company's remaining goodwill of \$3.1 million as of October 31, 2012 relates to the Company's e-Business reporting unit. There were no indicators of impairment identified related to the Company's e-Business reporting unit during the three months ended October 31, 2012.

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

	Americas	Asia	Europe	TFL	All Other	Consolidated Total
	(in thousands)					
Balance as of July 31, 2012						
Goodwill	\$ 94,477	\$ 73,948	\$ 30,108	\$ 16,299	\$ 5,857	\$ 220,689
Accumulated impairment charges	(94,477)	(73,948)	(30,108)	(16,299)	(2,799)	(217,631)
	\$	\$	\$	\$	\$ 3,058	\$ 3,058
Balance as of October 31, 2012						
Goodwill	94,477	73,948	30,108	16,299	5,857	220,689
Accumulated impairment charges	(94,477)	(73,948)	(30,108)	(16,299)	(2,799)	(217,631)
	\$	\$	\$	\$	\$ 3,058	\$ 3,058

**(6) SHARE-BASED PAYMENTS**

The following table summarizes share-based compensation expense related to employee stock options, employee stock purchases and nonvested shares for the three months ended October 31, 2012 and 2011, which was allocated as follows:

	Three Months Ended October 31,	
	2012	2011
Cost of revenue	\$ 50	\$ 96
Selling, general and administrative	443	786
	\$ 493	\$ 882

During the three months ended October 31, 2012, the Company did not grant any stock options or nonvested shares. As of October 31, 2012, unrecognized share-based compensation related to stock options was approximately \$1.7 million. This expense is expected to be recognized over a weighted average period of 1.8 years. As of October 31, 2012, there was approximately \$0.5 million of unrecognized share-based compensation related to nonvested stock to be recognized over a weighted average period of 1.3 years.

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

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

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	Three Months Ended October 31,	
	2012	2011
Foreign currency exchange gain (losses)	\$ (1,026)	\$ 1,197
Gain (loss) on disposal of assets	(4)	25
Other, net	(289)	3
	\$ (1,319)	\$ 1,225

The Company recorded foreign exchange losses of approximately \$1.0 million during the three months ended October 31, 2012. These net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$1.3 million and \$0.5 million in Europe and Asia, respectively, offset by realized and unrealized gains of approximately \$0.8 million in the Americas.

The Company recorded foreign exchange gains of approximately \$1.2 million during the three months ended October 31, 2011. These net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately \$0.1 million, \$0.3 million and \$0.8 million in the Americas, Asia and Europe, respectively.

**(8) OTHER CURRENT LIABILITIES**

The following table reflects the components of Other Current Liabilities :

	October 31, 2012	July 31, 2012
	(In thousands)	
Accrued pricing liabilities	\$ 20,530	\$ 20,397
Other	6,012	6,381
	\$ 26,542	\$ 26,778

As of October 31, 2012 and July 31, 2012, the Company recorded accrued pricing liabilities of approximately \$20.5 million and \$20.4 million, respectively. These liabilities related to the equivalent reduction of revenue where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract. The remaining accrued pricing liabilities at October 31, 2012 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.

**(9) RESTRUCTURING, NET**

The following table summarizes the activity in the restructuring accrual for the three and nine months ended October 31, 2012:

	Employee Related Expenses	Contractual Obligations	Asset Impairments	Total
	(in thousands)			
Accrued restructuring balance at July 31, 2012	\$ 626	\$ 1,098	\$	\$ 1,724
Restructuring charges	1,492			1,492
Restructuring adjustments	32	(45)		(13)
Cash paid	(1,148)	(309)		(1,457)
Non-cash adjustments	15	(10)		5
Accrued restructuring balance at October 31, 2012	\$ 1,017	\$ 734	\$	\$ 1,751

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

The net restructuring charges for the three months ended October 31, 2012 and 2011 would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

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	Three Months Ended October 31,	
	2012	2011
Cost of revenue	\$ 769	\$ 427
Selling, general and administrative	710	328
	\$ 1,479	\$ 755

The \$1.5 million restructuring charge recorded during the three months ended October 31, 2012 primarily consisted of approximately \$0.3 million, \$0.7 million, and \$0.5 million of employee-related costs in Americas, Asia, and Europe, respectively, related to the workforce reduction of 62 employees in our global supply chain operations.

The \$0.8 million restructuring charge recorded during the three months ended October 31, 2011 consisted of approximately \$0.2 million related to the workforce reduction of 9 employees in Raleigh, North Carolina and \$0.5 million for the workforce reduction of 144 employees in China. Also, approximately \$0.1 million of the restructuring charge related to certain contractual obligations in connection with the restructuring of facilities in Raleigh, North Carolina.

The following table summarizes the restructuring accrual by reportable segment and the Corporate-level activity for the three months ended October 31, 2012:

	Americas	Asia	Europe	TFL (in thousands)	All Other	Corporate-level Activity	Consolidated Total
Accrued restructuring balance at July 31, 2012	\$ 1,086	\$	\$ 51	\$ 244	\$ 343	\$	\$ 1,724
Restructuring charges	306	664	486	9	27		1,492
Restructuring adjustments	20		(32)		(1)		(13)
Cash paid	(400)	(474)	(343)	(157)	(83)		(1,457)
Non-cash adjustments			5				5
Accrued restructuring balance at October 31, 2012	\$ 1,012	\$ 190	\$ 167	\$ 96	\$ 286	\$	\$ 1,751

**(10) SEGMENT INFORMATION**

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

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

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

	Three Months Ended October 31,	
	2012	2011 (As Restated)
Net revenue:		
Americas	\$ 63,909	\$ 69,511
Asia	56,375	60,739
Europe	68,930	57,605
TFL	3,605	8,079
All other	7,837	9,974
	\$ 200,656	\$ 205,908
Operating income (loss):		
Americas	\$ (2,036)	\$ (120)
Asia	7,174	9,292
Europe	(3,829)	(1,688)
TFL	(832)	(1,395)
All other	405	856
Total Segment operating income	882	6,945
Corporate-level activity	(8,987)	(4,759)
Total operating income (loss)	\$ (8,105)	\$ 2,186
Adjusted operating income:		
Americas	\$ (604)	\$ 1,326
Asia	9,026	10,965
Europe	(1,999)	(296)
TFL	(816)	(1,315)
All other	848	1,343
Total Segment Adjusted operating income	6,455	12,023
Corporate-level activity	(8,685)	(4,120)
Total Adjusted operating income (loss)	\$ (2,230)	\$ 7,903
Adjusted operating income (loss)	\$ (2,230)	\$ 7,903
Adjustments:		
Depreciation	(3,618)	(3,748)
Amortization of intangible assets	(285)	(332)
Share-based compensation	(493)	(882)
Restructuring, net	(1,479)	(755)
Operating income (loss)	\$ (8,105)	\$ 2,186
Other income (expense), net	(1,650)	830
Income tax expense	(909)	(1,871)
Income from discontinued operations	4	
Net income (loss)	\$ (10,660)	\$ 1,145



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	October 31, 2012	July 31, 2012
	(in thousands)	
<b>Total assets of continuing operations:</b>		
Americas	\$ 114,646	\$ 101,931
Asia	114,408	111,660
Europe	116,999	105,472
TFL	1,155	2,750
All other	24,782	20,758
<b>Sub-total</b>	<b>371,990</b>	<b>342,571</b>
Corporate-level activity	14,705	16,311
	<b>\$ 386,695</b>	<b>\$ 358,882</b>

As of October 31, 2012, approximately 60%, 17% and 23% of the Company's long-lived assets were located in the Americas, Asia and Europe, respectively. As of July 31, 2012, approximately 63%, 18% and 19%, of the Company's long-lived assets were located in the Americas, Asia and Europe, respectively. As of October 31, 2012, approximately, \$9.1 million, \$5.1 million, \$3.3 million, \$2.2 million, and \$2.7 million of the Company's long-lived assets were located in Singapore, Ireland, China, the Netherlands, and the Czech Republic, respectively. As of July 31, 2012, approximately, \$9.2 million, \$4.8 million, \$3.3 million, \$2.3 million and \$3.4 million of the Company's long-lived assets were located in Singapore, Ireland, China, the Netherlands, and the Czech Republic, respectively.

During the three months ended October 31, 2012, the Company generated revenue of approximately \$38.4 million and \$22.5 million in China and the Netherlands, respectively. During the three months ended October 31, 2011, the Company generated revenue of approximately \$41.2 million and \$32.4 million in China and the Netherlands, respectively.

**(11) EARNINGS PER SHARE**

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

Under the two-class method, net income is reduced by the amount of dividends declared in the period for each class of common stock and participating securities. The remaining undistributed earnings are then allocated to common stock and participating securities as if all of the net income for the period had been distributed. Basic earnings per share excludes dilution and is calculated by dividing net income allocable to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income allocable to common shares by the weighted-average number of common shares for the period, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per share for the three and nine months ended October 31, 2012 and 2011.



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	Three Months Ended October 31,	
	2012	2011 (As Restated)
<b><u>BASIC</u></b>		
Income (loss) from continuing operations	\$ (10,664)	\$ 1,145
Income (loss) from discontinued operations	4	
Net income (loss)	\$ (10,660)	\$ 1,145
Less net income allocable to participating restricted stock		(10)
Net income (loss) available for basic common shares	(10,660)	1,135
Weighted average common shares outstanding	43,589	43,315
Basic net income (loss) per common share from continuing operations	\$ (0.24)	\$ 0.03
Basic net income (loss) per common share from discontinued operations		
Basic net income (loss) per common share	(0.24)	\$ 0.03
<b><u>DILUTED</u></b>		
Income (loss) from continuing operations	\$ (10,664)	\$ 1,145
Income (loss) from discontinued operations	4	
Net income (loss)	\$ (10,660)	\$ 1,145
Less net income allocable to participating restricted stock		(10)
Net income (loss) available for diluted common shares	(10,660)	1,135
Weighted average common shares outstanding	43,589	43,315
Weighted average common equivalent shares arising from: dilutive stock options		3
Weighted average number of common and potential common shares	43,589	43,318
Diluted net income (loss) per common share from continuing operations	\$ (0.24)	\$ 0.03
Diluted net income (loss) per common share from discontinued operations		
Diluted net income (loss) per common share	\$ (0.24)	\$ 0.03

For the three months ended October 31, 2012 and 2011, approximately 2.2 million and 2.4 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.

**(12) 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:

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	October 31, 2012	July 31, 2012
	(in thousands)	
Cumulative foreign currency translation adjustment	\$ 15,961	\$ 12,702
Pension adjustments	(1,235)	(1,235)
Net unrealized holding losses on securities	(27)	(26)
Accumulated other comprehensive income	\$ 14,699	\$ 11,441

**(13) INVENTORIES**

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

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Inventories consisted of the following:

	October 31, 2012	July 31, 2012
	(in thousands)	
Raw materials	\$ 62,172	\$ 56,198
Work-in-process	1,601	2,154
Finished goods	26,020	25,638
	\$ 89,793	\$ 83,990

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

**(14) CONTINGENCIES**

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

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

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

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

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

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

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

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shareholder commenced a purported derivative action in United States District Court for the District of Massachusetts against the Company (as nominal defendants), and certain of its current and former directors and officers, entitled, *Edward Tansey, Derivatively On Behalf Of ModusLink Global Solutions, Inc. v. Joseph C. Lawler, Steven G. Crane, Francis J. Jules, Virginia G. Breen, Michael J. Mardy, Edward E. Lucente, Jeffrey J. Fenton, Joseph M. O'Donnell, William R. McLennan, Thomas H. Johnson, And Anthony J. Bay, Defendants, And ModusLink Global Solutions, Inc., A Delaware Corporation, Nominal Defendant*, Civil Action No. 12-CV-11399 (DJC) (collectively, the Derivative Actions ). The Derivative Actions further assert that as a result of the individual defendants' alleged actions and course of conduct, the Company is now the

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subject of the Securities Actions and will incur related expenses and a possible judgment against it. These litigation matters also arise from the issues raised in the June 11, 2012 Announcement and allege that the individual defendants breached their duty of loyalty to the Company by allowing defendants to cause, or by themselves causing, the Company to make improper statements regarding its business prospects and/or by failing to prevent the other Individual Defendants from taking such purportedly illegal actions.

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

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

### **(15) INCOME TAXES**

For the three months ended October 31, 2012, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using enacted rates in those jurisdictions. The Company operates in multiple taxing jurisdictions, both within and outside of the United States. As of October 31, 2012 and July 31, 2012, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$1.4 million and \$1.3 million, respectively.

In accordance with the Company's accounting policy, interest related to unrecognized tax benefits is included in the provision of income taxes line of the Consolidated Statement of Operations. As of October 31, 2012 and July 31, 2012, the Company had recorded liabilities for interest expense related to uncertain tax positions in the amount of \$86 thousand and \$78 thousand respectively. The Company did not accrue for penalties related to income tax positions as there were no income tax positions that required the Company to accrue penalties. The Company expects that approximately \$0.6 million of unrecognized tax benefits will reverse in the next twelve months due to expiration of statute of limitations. The Company is subject to U.S. federal income tax and various state, local and international income taxes in numerous jurisdictions. The federal and state tax returns are generally subject to tax examinations for the tax years ended July 31, 2009 through July 31, 2012. To the extent the Company has tax attribute carryforwards, the tax year in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period. In addition, a number of tax years remain subject to examination by the appropriate government agencies for certain countries in the Europe and Asia regions. In Europe, the Company's 2006 through 2012 tax years remain subject to examination in most locations, while the Company's 2002 through 2012 tax years remain subject to examination in most Asia locations.

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

Accordingly, on October 17, 2011, the Company's Board of Directors adopted a Tax Benefit Preservation Plan between the Company and American Stock Transfer & Trust Company, LLC, as rights agent (as amended from time to time, the Tax Plan). The Tax Plan reduces the likelihood that changes in the Company's investor base have the unintended effect of limiting the Company's use of its Tax Benefits. The Tax Plan is intended to require any person acquiring shares of the Company's securities equal to or exceeding 4.99% of the Company's outstanding shares to obtain the approval of the Board of Directors. This would protect the Tax Benefits because changes in ownership by a person owning less than 4.99% of the Company's stock are not included in the calculation of ownership change for purposes of Section 382 of the Code.

### **(16) @VENTURES INVESTMENTS**

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

During the three months ended October 31, 2012 and 2011, approximately \$0.6 million and \$1.1 million, respectively was invested by @Ventures in privately held companies. At October 31, 2012 and July 31, 2012, the Company's carrying value of investments in privately held companies was approximately \$11.1 million and \$10.8 million, respectively. No impairment charges were recorded during the three months ended October 31, 2012. During the three months ended October 31, 2011, the Company recorded \$18 thousand of impairment charges related

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to certain investments in the @Ventures portfolio of companies. During the three months ended October 31, 2012 and October 31, 2011, @Ventures did not receive any distributions from its investments.

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

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

**(17) SUBSEQUENT EVENTS**

On June 13, 2012, the Company received notice from the NASDAQ Stock Market (NASDAQ) stating that the Company is not in compliance with Listing Rule 5250(c)(1) for continued listing due to the Company's inability to file with the SEC the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2012 (the Initial Delinquent Filing) on a timely basis. The notification was issued in accordance with standard NASDAQ procedures and had no immediate effect on the listing or trading of the Company's common stock on the NASDAQ Global Select Market. Pursuant to NASDAQ's letter dated June 13, 2012, the receipt of which was disclosed in the Company's Current Report on Form 8-K filed with the SEC on June 15, 2012, the Company had until August 13, 2012 to submit a plan to regain compliance with respect to the Initial Delinquent Filing. On August 13, 2012, the Company submitted its plan to regain compliance. On August 28, 2012, the Company was informed that NASDAQ had granted an exception to its rules to enable the Company to regain compliance by December 10, 2012. On October 16, 2012, the Company received another letter from NASDAQ, as a result of its inability to file with the SEC its Annual Report on Form 10-K for the year ended July 31, 2012 by its required filing deadline (the Second Delinquent Filing). In that letter, the receipt of which was disclosed in the Company's Current Report on Form 8-K filed with the SEC on October 17, 2012, NASDAQ noted that the Second Delinquent Filing was an additional instance of non-compliance which could lead to delisting from NASDAQ. On December 11, 2012, the Company received a third letter from NASDAQ, as a result of its failure to regain compliance with the NASDAQ listing requirements by December 10, 2012. In that letter, the receipt of which was disclosed in the Company's Current Report on Form 8-K filed with the SEC on December 13, 2012, NASDAQ noted that the failure to file the Initial Delinquent Filing and the Second Delinquent Filing by December 10, 2012 led NASDAQ to determine that the Company's common stock would be delisted, subject to the Company's right to appeal such determination. On December 17, 2012, the Company requested a hearing to appeal such determination, which resulted in an automatic stay of the delisting for 15 days. On December 18, 2012, the Company received another letter from NASDAQ, as a result of its inability to file with the SEC its Quarterly Report on Form 10-Q for the quarter ended October 31, 2012 by its required filing deadline (the Third Delinquent Filing). In that letter, the receipt of which was disclosed in the Company's Current Report on Form 8-K filed with the SEC on December 21, 2012, NASDAQ noted that the Third Delinquent Filing was an additional instance of non-compliance which could lead to delisting from NASDAQ. By letter dated December 31, 2012, the NASDAQ Hearings Panel has granted the Company's request to extend the automatic stay of suspension of trading of the Company's common stock pending completion of the hearing process and a final determination regarding continued listing.

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

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended that involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed in Part II Item 1A below and elsewhere in this report and the risks discussed in the Company's Annual Report on Form 10-K filed with the SEC on January 11, 2013. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

#### ***Restatement of Previously Issued Financial Statements***

As previously reported in the Company's Current Report on Form 8-K dated June 9, 2012, the Audit Committee, in consultation with management and the Board of Directors, concluded that the Company's previously issued financial statements for the fiscal years ended July 31, 2009 through 2011 and the first two quarters of fiscal year 2012, and selected unaudited financial data for fiscal years 2007 and 2008, should no longer be relied upon. Accordingly, the Company's consolidated financial statements for the fiscal years ended July 31, 2011, 2010 and 2009 have been restated. The restatement adjustments reduced revenue and established a liability for the portion of vendor rebates and cost mark-ups that had not been aligned consistently with client contracts. In addition, the restated financial statements also include other adjustments to correct certain immaterial errors for previously unrecorded adjustments identified in audits of prior years' financial statements. The previously unrecorded audit adjustments were recorded as part of the restatement process although none of these adjustments was individually material. These restatement adjustments, when combined with the other adjustments, decreased revenues by \$0.2 million, decreased net income by \$24 thousand, and did not change basic and diluted earnings per share, which remained at \$0.03 for the three months ended October 31, 2011. For details on the effects of the restatement and other adjustments on certain line items within our previously reported condensed consolidated financial statements for the quarter ended October 31, 2011, please refer to Note 3, *Restatement of Previously Issued Financial Statements*.

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

#### ***Overview***

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

Management evaluates operating performance based on net revenue, operating income (loss), and net income (loss), and, across its segments, on the basis of adjusted operating income (loss), which is defined as operating income (loss) excluding net charges related to depreciation, amortization of intangible assets, impairment of goodwill and long-lived assets, share-based compensation, restructuring and other charges not related to our baseline operating results. See Note 10 of the accompanying notes to the condensed consolidated financial statements included in Item 1 above for segment information, including a reconciliation of adjusted operating income (loss) to net income (loss).

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

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

*Drive sales growth through a combination of existing client penetration and targeting new markets.* Historically, a significant portion of our revenue from our supply chain business has been generated from clients in the computing and software markets. These markets are mature and, as a result, gross margins in these markets tend to be low. To address this, in addition to the computing and software markets, we have expanded our sales focus to include additional markets within technology, such as communications and consumer electronics, and outside of technology, such as medical devices. We believe these markets are experiencing faster growth than our historical markets, and represent opportunities to realize higher gross margins on our services. Companies in these markets often have significant need for a supply chain partner who will be an



extension to their business models.

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

*Drive operational efficiencies throughout our organization.* Our strategy is to operate an integrated supply chain system infrastructure that extends from front-end order management through distribution and returns management. This end-to-end solution enables clients to link supply and demand in real time, improve visibility and performance throughout the supply chain, and provide real-time access to information for greater collaboration and making informed business decisions. We believe that our clients benefit from our global integrated business solution. We also reduce our operating costs while implementing operational efficiencies throughout the Company. We expect that our lean sigma continuous improvement program will drive further operational efficiencies in the future. The lean sigma continuous improvement program is aimed at reducing our overall costs, increasing efficiencies and improving capacity utilization. The program consists of standardized training for the Company's employees in the lean sigma fundamentals (which include six sigma and lean methodology approaches) including standard tools to support the identification and elimination of waste and variability and applying these methods to operational and administrative tasks. As noted, the training enables employees to identify and implement projects to improve efficiency, productivity and eliminate waste through ongoing improvement efforts. We believe this initiative will yield improved process standardization and operating efficiency gains, as well as lower our long-term operating costs.

Among the key factors that will influence our performance are successful execution and implementation of our strategic initiatives, global economic conditions, especially in the technology sector, demand for our clients' products, the effect of product form factor changes, technology changes, revenue mix and demand for outsourcing services.

For the three months ended October 31, 2012, the Company reported net revenue of \$200.7 million, operating loss of \$8.1 million, loss from continuing operations before income taxes of \$9.8 million, net loss of \$10.7 million and a gross margin percentage of 9.3%. We currently conduct business in many countries including the Netherlands, Hungary, France, Ireland, Czech Republic, Singapore, Taiwan, China, Malaysia, Japan, Australia, India, and Mexico, in addition to our United States operations. At October 31, 2012, we had cash and cash equivalents and available-for-sale securities of \$58.5 million, and working capital of \$105.5 million.

As a large portion of our revenue comes from outsourcing services provided to clients such as hardware manufacturers, software publishers, telecommunications carriers, broadband and wireless service providers and consumer electronics companies, our operating performance has been and may continue to be adversely affected by declines in the overall performance of the technology sector and the sustained economic uncertainty affecting the world economy. In addition, the drop in consumer demand for products of certain clients has had and may continue to have the effect of reducing our volumes and adversely affecting our revenue performance. The market for our services is very competitive. We also face pressure from our clients to continually realize efficiency gains in order to help our clients maintain their profitability objectives. Increased competition and client demands for efficiency improvements may result in price reductions, reduced gross margins and, in some cases, loss of market share. In addition, our profitability varies based on the types of services we provide and the regions in which we perform them. Therefore the mix of revenue derived from our various services and locations can impact our gross margin results. Also, form factor changes, which we describe as the reduction in the amount of materials and product components used in our clients' completed packaged product, can also have the effect of reducing our revenue and gross margin opportunities. As a result of these competitive and client pressures the gross margins in our business are low. During the three months ended October 31, 2012, our gross margin percentage was 9.3%. Increased competition arising from industry consolidation and/or low demand for our clients' products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We generally react to margin and pricing pressures in several ways, including efforts to target new markets, expand our service offerings, improve the efficiency of our processes and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, establishing facilities closer to our clients or to our clients' end markets to gain efficiencies, and other actions designed to improve the productivity of our operations.

Historically, a limited number of key clients have accounted for a significant percentage of our revenue. For the three months ended October 31, 2012, sales to Hewlett-Packard accounted for approximately 28% of our consolidated net revenue. For the three months ended October 31, 2011, sales to Hewlett-Packard and Advanced Micro Devices accounted for approximately 33% and 11%, respectively, of our consolidated net revenue. We expect to continue to derive the vast majority of our operating revenue from sales to a small number of key clients. In general, we do not have any agreements which obligate any client to buy a minimum amount of services from us or designate us as an exclusive service provider. Consequently, our sales are subject to demand variability by our clients. The level and timing of orders placed by our clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions.



**Table of Contents****Basis of Presentation**

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

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

**Results of Operations**

Three months ended October 31, 2012 compared to the three months ended October 31, 2011

**Net Revenue:**

	Three Months Ended October 31, 2012	As a % of Total Net Revenue	Three Months Ended October 31, 2011 (As Restated) (in thousands)	As a % of Total Net Revenue	\$ Change	% Change
Americas	\$ 63,909	31.8%	\$ 69,511	33.8%	\$ (5,602)	(8.1)%
Asia	56,375	28.1%	60,739	29.5%	(4,364)	(7.2)%
Europe	68,930	34.4%	57,605	28.0%	11,325	19.7%
TFL	3,605	1.8%	8,079	3.9%	(4,474)	(55.4)%
All other	7,837	3.9%	9,974	4.8%	(2,137)	(21.4)%
Total	\$ 200,656	100.0%	\$ 205,908	100.0%	\$ (5,252)	(2.6)%

Net revenue decreased by approximately \$5.3 million during the three months ended October 31, 2012, as compared to the same period in the prior year. This decrease was primarily a result of lower volumes from certain client programs and the unfavorable impact of foreign currency translation, partially offset by an increase in new business as compared to the prior year period. Approximately \$122.1 million of the net revenue for the three months ended October 31, 2012 related to the procurement and re-sale of materials on behalf of our clients as compared to \$121.0 million for the three months ended October 31, 2011.

During the three months ended October 31, 2012, net revenue in the Americas region decreased by approximately \$5.6 million. This decrease resulted primarily from lower order volumes from existing client programs, partially offset by new business as compared to the prior year period. Within the Asia region, the net revenue decrease of approximately \$4.4 million resulted from lower order volumes from existing client programs and the unfavorable impact of foreign exchange. Within the Europe region, net revenue increased by approximately \$11.3 million primarily due to higher volumes from certain client programs and new business. Net revenue for TFL and E-business decreased by approximately \$4.5 million and \$2.1 million, respectively, due to increased competition in the market.

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



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

	Three Months Ended October 31, 2012	As a % of Segment Net Revenue	Three Months Ended October 31, 2011 (As Restated) (in thousands)	As a % of Segment Net Revenue	\$ Change	% Change
Americas	\$ 61,841	96.8%	\$ 65,385	94.1%	\$ (3,544)	(5.4)%
Asia	42,929	76.1%	45,022	74.1%	(2,093)	(4.6)%
Europe	67,257	97.6%	53,803	93.4%	13,454	25.0%
TFL	3,546	98.4%	8,379	103.7%	(4,833)	(57.7)%
All other	6,400	81.7%	7,848	78.7%	(1,448)	(18.5)%
Total	\$ 181,973	90.7%	\$ 180,437	87.6%	\$ 1,536	0.9%

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services as well as costs for salaries and benefits, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Cost of revenue increased by approximately \$1.5 million for the three months ended October 31, 2012, as compared to the three months ended October 31, 2011. Gross margin for the first quarter of fiscal 2012 was 9.3% as compared to 12.4% in the prior year quarter. This decrease is attributable to an unfavorable geographic, product and customer mix.

For the three months ended October 31, 2012, the Company's gross margin percentages within the Americas, Asia and Europe regions were 3.2%, 23.9% and 2.4%, as compared to 5.9%, 25.9% and 6.6%, respectively, for the same period of the prior year. The decrease in gross margin within the Americas, Asia, and Europe regions is primarily attributable to an unfavorable product and customer mix. The increase in gross margin at TFL to 1.6% as compared to (3.7)% in the same period of the prior year is primarily due to favorable product mix and reduced labor costs.

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

**Selling, General and Administrative Expenses:**

	Three Months Ended October 31, 2012	As a % of Segment Net Revenue	Three Months Ended October 31, 2011 (in thousands)	As a % of Segment Net Revenue	\$ Change	% Change
Americas	\$ 3,742	5.9%	\$ 3,948	5.7%	\$ (206)	(5.2)%
Asia	5,610	10.0%	5,930	9.8%	(320)	(5.4)%
Europe	5,046	7.3%	5,490	9.5%	(444)	(8.1)%
TFL	883	24.5%	1,048	13.0%	(165)	(15.7)%
All other	759	9.7%	1,024	10.3%	(265)	(25.9)%
Sub-total	16,040	8.0%	17,440	8.5%	(1,400)	(8.0)%
Corporate-level activity	8,984		4,758		4,226	88.8%

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Total	\$ 25,024	12.5%	\$ 22,198	10.8%	\$ 2,826	12.7%
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Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense and marketing expenses. Selling, general and administrative expenses during the three months ended October 31, 2012 increased by approximately \$2.8 million compared to the three-month period ended October 31, 2011, primarily as a result of a \$4.1 million increase in audit, legal and other professional fees associated with the Company's Security and Exchange Commission inquiry and financial restatement process. This increase was partially offset by a \$0.9 million decrease in costs within the Company's IT organization resulting from cost reduction activities and a \$0.4 million reduction in share-based compensation expense.

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

	Three Months Ended October 31, 2012	As a % of Segment Net Revenue	Three Months Ended October 31, 2011	As a % of Segment Net Revenue	\$ Change	% Change
			(in thousands)			
Americas	\$ 38	0.1%	\$ 38	0.1%	\$	
Asia						
Europe						
TFL			47	0.6%	(47)	(100.0)%
All other	247	3.2%	247	2.5%		
Total	\$ 285	0.1%	\$ 332	0.2%	\$ (47)	(14.2)%

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

**Restructuring, net:**

	Three Months Ended October 31, 2012	As a % of Segment Net Revenue	Three Months Ended October 31, 2011	As a % of Segment Net Revenue	\$ Change	% Change
			(in thousands)			
Americas	\$ 326	0.5%	\$ 260	0.4%	\$ 66	25.4%
Asia	664	1.2%	495	0.8%	169	34.1%
Europe	454	0.7%			454	
TFL	9	0.2%			9	
All other	26	0.3%			26	
Sub-total	\$ 1,479	0.7%	\$ 755	0.4%	724	95.9%
Corporate-level activity						
Total	\$ 1,479	0.7%	\$ 755	0.4%	\$ 724	95.9%

The \$1.5 million restructuring charge recorded during the three months ended October 31, 2012 primarily consisted of approximately \$0.3 million, \$0.7 million, and \$0.5 million of employee-related costs in Americas, Asia, and Europe, respectively, related to the workforce reduction of 62 employees in our global supply chain operations.

The \$0.8 million restructuring charge recorded during the three months ended October 31, 2011 consisted of approximately \$0.2 million related to the workforce reduction of 9 employees in Raleigh, North Carolina and \$0.5 million for the workforce reduction of 144 employees in China. Also, approximately \$0.1 million of the restructuring charge related to certain contractual obligations in connection with the restructuring of facilities in Raleigh, North Carolina.

**Interest Income/Expense:**

During the three months ended October 31, 2012 and 2011, interest income was \$0.1 million in each period.



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During the three months ended October 31, 2012 and 2011, interest expense totaled approximately \$0.1 million for both periods. In both periods, interest expense related primarily to the Company's stadium obligation.

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

The Company recorded foreign exchange losses of approximately \$1.0 million during the three months ended October 31, 2012. These net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$1.3 million and \$0.5 million in Europe and Asia, respectively, offset by realized and unrealized gains of approximately \$0.8 million in the Americas.

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The Company recorded foreign exchange gains of approximately \$1.2 million during the three months ended October 31, 2011. These net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately \$0.1 million, \$0.3 million and \$0.8 million in the Americas, Asia and Europe, respectively.

### ***Equity in Losses of Affiliates and Impairments:***

Equity in losses of affiliates and impairments, results from the Company's minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's operating income or losses is included in equity in losses of affiliates. Equity in losses of affiliates was \$0.3 million and \$0.4 million for the three months ended October 31, 2012 and 2011, respectively. During the three months ended October 31, 2011, the Company recorded \$18 thousand of impairment charges related to certain investments in the @Ventures portfolio of companies. During the three months ended October 31, 2012 and October 31, 2011, @Ventures did not receive any distributions from its investments.

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

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 \$11.1 million of investments in affiliates at October 31, 2012 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by \$1.1 million to \$2.2 million.

### ***Income Tax Expense:***

During the three months ended October 31, 2012, the Company recorded income tax expense of approximately \$0.9 million, as compared to income tax expense of \$1.9 million for same period in the prior fiscal year. For the three months ended October 31, 2012 and 2011, 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.

### ***Liquidity and Capital Resources***

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of our securities, returns generated by our venture capital investments and borrowings from lending institutions. As of October 31, 2012, the Company's primary sources of liquidity consisted of cash and cash equivalents of \$58.4 million.

On October 31, 2012, the Company and certain of its domestic subsidiaries entered into a Credit Agreement (the "Credit Facility") with Wells Fargo Bank, National Association as lender and agent for the lenders party thereto. The Credit Facility provides a senior secured revolving credit facility up to an initial aggregate principal amount of \$50.0 million or the calculated borrowing base and is secured by substantially all of the domestic assets of the Company. As of October 31, 2012, the calculated borrowing base was \$36.0 million. The Credit Facility terminates on October 31, 2015. Interest on the Credit Facility is based on the Company's options of LIBOR plus 2.5% or the base rate plus 1.5%. The Credit Facility includes one restrictive financial covenant, which is minimum EBITDA, and restrictions that limit the ability of the Company, to among other things, create liens, incur additional indebtedness, make investments, or dispose of assets or property without prior approval from the lenders. The Company did not have any outstanding indebtedness related to the Credit Facility as of October 31, 2012. The Company's working capital at October 31, 2012 was approximately \$105.5 million.

Cash provided by operating activities of continuing operations represents income (loss) from continuing operations as adjusted for non-cash items and changes in operating assets and liabilities. Net cash provided by operating activities of continuing operations was \$8.8 million and

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\$5.2 million for the three months ended October 31, 2012 and 2011, respectively. The \$3.6 million increase in cash provided by operating activities of continuing operations for the three months ended October 31, 2012 compared with the same period in the prior year was due to a \$13.5 million increase in cash resulting from changes in operating assets and liabilities, partially offset by a \$9.9 million decrease in income from continuing operations as adjusted for non-cash items. During the three months ended October 31, 2012, non-cash items included depreciation expense of \$3.6 million, share-based compensation of \$0.5 million,

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amortization of intangible assets of \$0.3 million, non-operating losses, net, of \$1.3 million, and equity in losses of affiliates and impairments of \$0.3 million. The increase in accounts receivable, inventory and accounts payable is due to seasonal demands of clients. The increase in accounts payable is due to the seasonal demands of clients and expenses incurred as a result of the Company's Securities and Exchange Commission inquiry and financial restatement process.

During the three months ended October 31, 2011, non-cash items included depreciation expense of \$3.7 million, share-based compensation of \$0.9 million, amortization of intangible assets of \$0.3 million, non-operating gains, net, of \$1.2 million, and equity in losses of affiliates and impairments of \$0.4 million.

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

Investing activities of continuing operations used cash of \$3.4 million and \$2.8 million during the three months ended October 31, 2012 and 2011, respectively. The \$3.4 million of cash used in investing activities during the three months ended October 31, 2012 resulted primarily from \$2.1 million in capital expenditures, \$0.7 million of restricted cash used as collateral for borrowing obligations and \$0.6 million of investments in affiliates. The \$2.8 million of cash used in investing activities during the three months ended October 31, 2011 resulted primarily from \$1.7 million in capital expenditures and \$1.1 million of investments in affiliates. As of October 31, 2012, the Company had a carrying value of \$11.1 million of investments in affiliates, which may be a potential source of future liquidity. However, the Company does not anticipate being dependent on liquidity from these investments to fund either its short-term or long-term operating activities.

During the quarter ended October 31, 2012, the Company restricted cash of \$0.2 million to collateralize outstanding letters of credit and \$0.5 million to collateralize the Company's commercial credit card program, respectively. These restricted cash amounts are included as components of prepaid expenses and other current assets and other assets, respectively, in the accompanying condensed consolidated balance sheet as of October 31, 2012.

Financing activities of continuing operations used cash of \$0.2 million during both the three months ended October 31, 2012 and 2011. The \$0.2 million of cash used for financing activities of continuing operations during the three months ended October 31, 2012 primarily related to \$31 thousand of capital lease repayments and \$0.1 million used to repurchase the Company's common stock. The \$0.2 million of cash used for financing activities of continuing operations during the three months ended October 31, 2011 primarily related to \$0.2 million of cash used to repurchase the Company's common stock. The Company is not dependent on liquidity from its financing activities to fund either its short-term or long-term operating activities; however, we have utilized our revolving line of credit to meet operating requirements in the past.

Cash used in discontinued operations totaled \$0.3 million and \$0.4 million for the three months ended October 31, 2012 and 2011, respectively, primarily for ongoing lease obligations.

Given the Company's cash resources as of October 31, 2012, the Company believes that it has sufficient working capital and liquidity to support its operations for at least the next 12 months. There are no material capital expenditure requirements as of October 31, 2012. However, should additional capital be needed to fund any future cash needs, investments or acquisition activities, the Company may seek to raise additional capital through offerings of the Company's stock, or through debt financing. There can be no assurance, however, that the Company will be able to raise additional capital on terms that are favorable to the Company, or at all.

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

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

### ***Contractual Obligations***

A summary of the Company's contractual obligations is included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2012. The company's contractual obligations and other commercial commitments did not change materially between July 31, 2012 and October 31, 2012. The Company's gross liability for unrecognized tax benefits and related accrued interest was approximately \$1.4 million as of October 31, 2012. The Company is unable to reasonably estimate the amount or timing of payments for the liability.

From time to time, the Company agrees to indemnify its clients in the ordinary course of business. Typically, the Company agrees to indemnify its clients for losses caused by the Company. As of October 31, 2012, the Company had no recorded liabilities with respect to these

arrangements.

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### ***Critical Accounting Policies***

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

During the three months ended October 31, 2012, we believe that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in the *Critical Accounting Policies* section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2012.

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

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

As a matter of policy, the Company does not enter into derivative financial instruments for trading purposes. All derivative positions are used to reduce risk by hedging underlying economic or market exposure and are valued at their fair value on our consolidated balance sheets and adjustments to the fair value during this holding period are recorded in the Consolidated Statement of Operations. As of October 31, 2012, the Company did not have any foreign currency exchange contracts outstanding.

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

At October 31, 2012, the Company had no outstanding borrowings under its Credit Facility and the Company had no open derivative positions with respect to its borrowing arrangements.

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

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

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

The Company has operations in various countries and currencies throughout the world and its operating results and financial position are subject to exposure from fluctuations in foreign currency exchange rates. The Company has historically used derivative financial instruments on a limited basis, principally foreign currency exchange rate contracts, to minimize the transaction exposure that results from such fluctuations. As of October 31, 2012, the Company did not have any outstanding foreign currency exchange contracts.

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Revenues from our foreign operating segments accounted for approximately 62% of total revenues during the three months ended October 31, 2012, respectively. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.

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

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The conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income (loss). For the three months ended October 31, 2012, we recorded a foreign currency translation gain of approximately \$3.3 million which is recorded within accumulated other comprehensive income in stockholders' equity in our condensed consolidated balance sheet. In addition, certain of our subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. For the three months ended October 31, 2012, we recorded realized and unrealized foreign currency transaction losses of approximately \$1.0 million which is recorded in Other gains (losses), net in our condensed consolidated statement of operations.

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

### **Item 4. Controls and Procedures.**

#### *Disclosure Controls and Procedures*

At the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Financial Officer (who is also performing the functions of the Principal Executive Officer) of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Disclosure controls and procedures means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, our Chief Financial Officer (who is also performing the functions of the Principal Executive Officer) concluded that our disclosure controls and procedures were not effective as of October 31, 2012 because of the material weaknesses in internal control over financial reporting discussed below and our resulting inability to timely file this Quarterly Report on Form 10-Q.

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

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

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

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

Contract administration to ensure an appropriate understanding and sufficient communication of relevant contract terms, including pricing terms, between individuals responsible for accumulating costs and individuals responsible for establishing client prices under certain cost-based client contracts;



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The accuracy of the allocation of vendor rebates received to the costs incurred under certain cost-based client contracts to ensure that sales pricing is compliant with the underlying client contracts;

The accuracy of cost mark-ups related to certain cost-based client contracts to ensure that sales pricing is compliant with the underlying client contracts.

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

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

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The Company has implemented a new control, whereby the Company reviews and analyzes, at the Corporate level, rebates on a global basis and pricing mark-ups by customer each quarter. This improvement to the Company's internal controls, in the short term, will allow the Company to check the accuracy of the amount of the revenue reductions attributable to rebates and mark-ups in accordance with client contractual terms. Management will adjust revenue based on its investigation of contracts, vendor invoices, rebates received, and client billings (including whether billings are in alignment with contracts related to rebates and pricing mark-ups).

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

Management's planned actions to further address these issues include:

Establishing a new policy whereby the Company will enter into new vendor agreements which reflect net pricing only and wind down existing volume discount rebate programs;

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

Establishing a formal review over the initiation of client and vendor contracts, vendor invoices, rebates received, and invoices sent to clients;

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

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

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

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

We expect that our remediation efforts will continue throughout fiscal year 2013. Management has not yet completed its remediation efforts and any remediation actions put in place must be effective over a period of time, fully documented and tested. Due to these material weaknesses being identified during the restatement process a full remediation plan has not been fully implemented and tested as of the end of the quarter ended October 31, 2012.

### *Changes in Internal Control Over Financial Reporting*

Other than the changes resulting from the remediation activities described above, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended October 31, 2012 that have materially affected,

or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

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

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

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

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

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

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

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

**Item 1A. Risk Factors.**

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

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

The following table provides information about purchases by the Company of its common stock during the quarter ended October 31, 2012:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet Be Purchased
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			<b>or Programs</b>	<b>Under the Plans or Programs</b>
August 1, 2012	August 31, 2012	11,213 <sup>(1)</sup>	\$ 3.22	\$
September 1, 2012	September 30, 2012			
October 1, 2012	October 31, 2012	30,134 <sup>(1)</sup>	\$ 3.69	

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

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**Item 6. Exhibits.**

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

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**SIGNATURE**

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

MODUSLINK GLOBAL SOLUTIONS, INC.

Date: January 11, 2013

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

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**EXHIBIT INDEX**

- 10.1 Credit Agreement, dated as of October 31, 2012, by and among ModusLink Global Solutions, Inc., certain of its subsidiaries and Wells Fargo Bank, National Association is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 1, 2012 (File No. 001-35319).
- 10.2 Guaranty and Security Agreement, dated as of October 31, 2012, by and among ModusLink Global Solutions, Inc. and certain of its subsidiaries and Wells Fargo Bank, National Association is incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on November 1, 2012 (File No. 001-35319).
- 31.1 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Unaudited Condensed Consolidated Balance Sheets as of October 31, 2012 and July 31, 2012, (ii) Unaudited Condensed Consolidated Statements of Operations for the Three Months ended October 31, 2012 and 2011, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the Three Months ended October 31, 2012 and 2011 (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months ended October 31, 2012 and 2011 and (v) Notes to Unaudited Condensed Consolidated Financial Statements.\*

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