
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2018

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

Steel Connect, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

1601 Trapelo Road, Suite 170
Waltham, Massachusetts
(Address of principal executive offices)

02451
(Zip Code)

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

ModusLink Global Solutions, Inc.
(Former name or former address, if changed since last report)

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any

new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of February 28, 2018, there were 60,205,946 shares issued and outstanding of the registrant's Common Stock, \$0.01 par value per share.

STEEL CONNECT, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

STEEL CONNECT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

	January 31, 2018	July 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 106,433	\$ 110,670
Trading securities	—	11,898
Accounts receivable, trade, net of allowance for doubtful accounts of \$75 and \$616 at January 31, 2018 and July 31, 2017, respectively	110,834	81,450
Inventories, net	45,211	34,369
Funds held for clients	13,074	13,454
Prepaid expenses and other current assets	17,204	6,005
Total current assets	292,756	257,846
Property and equipment, net	105,411	18,555
Goodwill	259,085	—
Other intangible assets, net	206,819	—
Other assets	6,039	4,897
Total assets	\$ 870,110	\$ 281,298
LIABILITIES, CONTINGENTLY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 85,010	\$ 71,476
Accrued restructuring	112	186
Accrued expenses	74,671	37,898
Funds held for clients	13,074	13,454
Current portion of long-term debt	5,725	—
Other current liabilities	43,561	26,141
Total current liabilities	222,153	149,155
Notes payable	62,062	59,758
Long-term debt, excluding current portion	385,975	—
Other long-term liabilities	30,693	9,414
Long-term liabilities	478,730	69,172
Total liabilities	700,883	218,327
Contingently redeemable preferred stock, \$0.01 par value per share. 35,000 shares authorized, issued and outstanding shares at January 31, 2018; zero shares authorized, issued and outstanding shares at July 31, 2017 (Note 11)	35,259	—
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. Authorized 4,965,000 and 5,000,000 shares at January 31, 2018 and July 31, 2017, respectively; zero issued and outstanding shares at January 31, 2018 and at July 31, 2017	—	—
Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 60,205,946 issued and outstanding shares at January 31, 2018; 55,555,973 issued and outstanding shares at July 31, 2017	603	556
Additional paid-in capital	7,464,451	7,457,051
Accumulated deficit	(7,339,367)	(7,398,949)
Accumulated other comprehensive income	8,281	4,313
Total stockholders' equity	133,968	62,971
Total liabilities, contingently redeemable preferred stock and stockholders' equity	\$ 870,110	\$ 281,298

See accompanying notes to unaudited condensed consolidated financial statements

STEEL CONNECT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2018	2017	2018	2017
Net revenue	\$151,119	\$117,568	\$253,641	\$238,895
Cost of revenue	134,169	106,370	227,617	218,364
Gross profit	<u>16,950</u>	<u>11,198</u>	<u>26,024</u>	<u>20,531</u>
Operating expenses				
Selling, general and administrative	30,107	11,926	42,974	25,527
Amortization of intangible assets	4,107	—	4,107	—
Gain on sale of property	(12,692)	—	(12,692)	—
Restructuring, net	4	776	41	2,150
Total operating expenses	<u>21,526</u>	<u>12,702</u>	<u>34,430</u>	<u>27,677</u>
Operating loss	<u>(4,576)</u>	<u>(1,504)</u>	<u>(8,406)</u>	<u>(7,146)</u>
Other income (expense):				
Interest income	92	15	256	180
Interest expense	(6,575)	(2,109)	(8,682)	(4,138)
Other gains (losses), net	(1,716)	1,019	(294)	531
Total other income (expense)	<u>(8,199)</u>	<u>(1,075)</u>	<u>(8,720)</u>	<u>(3,427)</u>
Loss before income taxes	(12,775)	(2,579)	(17,126)	(10,573)
Income tax expense (benefit)	(77,664)	723	(76,577)	1,772
Gains on investments in affiliates, net of tax	(200)	(396)	(401)	(896)
Net income (loss)	65,089	(2,906)	59,852	(11,449)
Less: Preferred dividends on redeemable preferred stock	(259)	—	(259)	—
Net income (loss) attributable to common stockholders	<u>\$ 64,830</u>	<u>\$ (2,906)</u>	<u>\$ 59,593</u>	<u>\$ (11,449)</u>
Basic net earning (loss) per share attributable to common stockholders:	\$ 1.11	\$ (0.05)	\$ 1.05	\$ (0.21)
Diluted net earning (loss) per share attributable to common stockholders:	\$ 0.85	\$ (0.05)	\$ 0.87	\$ (0.21)
Weighted average common shares used in:				
Basic earnings per share	58,341	55,083	56,776	55,031
Diluted earnings per share	79,083	55,083	72,883	55,031

See accompanying notes to unaudited condensed consolidated financial statements

STEEL CONNECT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2018	2017	2018	2017
Net income (loss)	\$65,089	\$ (2,906)	\$59,852	\$(11,449)
Other comprehensive income (loss):				
Foreign currency translation adjustment	3,654	(734)	3,926	(2,003)
Net unrealized holding gain (loss) on securities, net of tax	29	(10)	16	—
Pension liability adjustments, net of tax	—	353	26	750
Other comprehensive income (loss)	3,683	(391)	3,968	(1,253)
Comprehensive income (loss)	<u>\$68,772</u>	<u>\$ (3,297)</u>	<u>\$63,820</u>	<u>\$(12,702)</u>

See accompanying notes to unaudited condensed consolidated financial statements

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STEEL CONNECT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended January 31,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ 59,852	\$ (11,449)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	5,656	4,090
Amortization of intangible assets	4,107	—
Amortization of deferred financing costs	392	281
Accretion of debt discount	2,117	1,940
Share-based compensation	7,397	381
Non-cash (gains) losses, net	(12,398)	(531)
Gains on investments in affiliates	(401)	(896)
Changes in operating assets and liabilities, net of business acquired:		
Accounts receivable, net	20,388	5,169
Inventories, net	17,659	2,349
Prepaid expenses and other current assets	(1,535)	1,330
Accounts payable, accrued restructuring and accrued expenses	(15,422)	(19,358)
Refundable and accrued income taxes, net	3,767	(372)
Deferred tax assets and liabilities	(79,918)	—
Other assets and liabilities	(6,279)	(35)
Net cash provided by (used in) operating activities	<u>5,382</u>	<u>(17,101)</u>
Cash flows from investing activities:		
Payments to acquire business	(469,221)	—
Additions to property and equipment	(9,303)	(3,301)
Proceeds from the disposition of property and equipment	20,589	—
Proceeds from the sale of Trading Securities	13,775	5,832
Proceeds from investments in affiliates	401	896
Net cash provided by (used in) investing activities	<u>(443,759)</u>	<u>3,427</u>
Cash flows from financing activities:		
Proceeds from long-term debt	393,000	—
Proceeds from issuance of preferred stock	35,000	—
Proceeds from revolving line of credit	6,000	—
Payment of deferred financing costs	(1,334)	—
Purchase of the Company's Convertible Notes	—	(1,763)
Repayments on capital lease obligations	(77)	(126)
Proceeds from issuance of common stock	3	12
Net cash provided by (used in) financing activities	<u>432,592</u>	<u>(1,877)</u>
Net effect of exchange rate changes on cash and cash equivalents	<u>1,548</u>	<u>(905)</u>
Net decrease in cash and cash equivalents	<u>(4,237)</u>	<u>(16,456)</u>
Cash and cash equivalents at beginning of period	110,670	130,790
Cash and cash equivalents at end of period	<u>\$ 106,433</u>	<u>\$114,334</u>

See accompanying notes to unaudited condensed consolidated financial statements

STEEL CONNECT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) NATURE OF OPERATIONS

Steel Connect, Inc. (“Steel Connect” or the “Company”) together with its consolidated subsidiaries, operates through its wholly owned subsidiaries, ModusLink Corporation and ModusLink PTS, Inc. (together “ModusLink”), and IWCO Direct Holdings, Inc. (“IWCO” or “IWCO Direct”). The Company was formerly known as ModusLink Global Solutions, Inc. until it changed its name to Steel Connect, Inc. effective February 27, 2018.

ModusLink is a leader in global supply chain business process management serving clients in markets such as consumer electronics, communications, computing, medical devices, software, and retail. The Company designs and executes critical elements in its clients’ global supply chains to improve speed to market, product customization, flexibility, cost, quality and service. These benefits are delivered through a combination of industry expertise, innovative service solutions, and integrated operations, proven business processes, expansive global footprint and world-class technology. The Company also produces and licenses an entitlement management solution powered by its enterprise-class Poetic software, which offers a complete solution for activation, provisioning, entitlement subscription and data collection from physical goods (connected products) and digital products.

ModusLink has an integrated network of strategically located facilities with 20 sites operating in 21 languages in various countries, including numerous sites throughout North America, Europe and Asia. The Company previously operated under the names ModusLink Global Solutions, Inc., CMGI, Inc. and CMG Information Services, Inc. and was incorporated in Delaware in 1986.

IWCO Direct delivers highly-effective data-driven marketing solutions for its customers, which represent some of the largest and most respected brands in the world. Its full range of services includes strategy, creative and production for multichannel marketing campaigns, along with one of the industry’s most sophisticated postal logistics programs for direct mail. Through its Mail-Gard® product, IWCO Direct also offers business continuity and disaster recovery services to protect against unexpected business interruptions, along with providing print and mail outsourcing services. Their solutions enable customers to improve Customer Lifetime Value (CLV), which in turn, has led to and longer customer relationships.

IWCO has administrative offices in Chanhassen, MN. and has three facilities in Chanhassen MN., one facility in Little Falls, MN., one facility in Warminster, PA. and two facilities in Hamburg PA.

(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, 2017, which are contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on October 16, 2017. The results for the three and six months ended January 31, 2018 are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the period ended January 31, 2018, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

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

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

In August 2014, the FASB issued ASU No. 2014-15 Presentation of Financial Statements—Going Concern (Subtopic 205-40), which amends the accounting guidance related to the evaluation of an entity's ability to continue as a going concern. The amendment establishes management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern in connection with preparing financial statements for each annual and interim reporting period. The update also gives guidance to determine whether to disclose information about relevant conditions and events when there is substantial doubt about an entity's ability to continue as a going concern. The Company adopted this guidance as of the first quarter of fiscal year 2018. Its adoption did not have an effect on the Company's consolidated financial statements.

In November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging—Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity, which addresses the significant diversity in practice in the assessment of preferred stock and other hybrid equity instruments. ASU 2014-16 mandates the use of the whole-instrument approach and provides guidance to aid in the qualitative analysis when using the whole-instrument approach. The Company adopted this guidance as of the second quarter of fiscal year 2018. Its adoption did not have an effect on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (Topic 330), which provides guidance related to inventory measurement. The new standard requires entities to measure inventory at the lower of cost and net realizable value thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The Company adopted this guidance beginning the first quarter of fiscal year 2018. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today's accounting. This ASU will be effective for the Company beginning in the first quarter of fiscal year 2020. The Company is currently evaluating the effect the guidance will have on the Company's financial statement disclosures, results of operations and financial position.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments in this update relate to when another party, along with the Company, are involved in providing a good or service to a customer and are intended to improve the operability and understandability of the implementation guidance on principal versus agent. Revenue recognition guidance requires companies to determine whether the nature of its promise is to provide that good or service to the customer (i.e., the Company is a principal) or to arrange for the good or service to be provided to the customer by the other party (i.e., the Company is an agent). This ASU will be effective for the Company beginning in the first quarter of fiscal year 2019. The Company and its outside consultants have initiated the process of evaluating the potential effects on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The Company retrospectively adopted this guidance during the first quarter of fiscal year 2018 by utilizing the modified retrospective transition method. The adoption of this ASU did not materially impact the Company's consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. Entities will also have to disclose the nature of their restricted cash and restricted cash equivalent balances, which is similar to what is required today for SEC Registrants. This ASU will be effective for the Company beginning in the first quarter of fiscal year 2019. The Company is currently in the process of assessing what impact this new standard may have on its consolidated financial statements but does not believe that implementing this standard will have a significant impact on the Company's current presentation and disclosures.

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In March 2017, the FASB issued ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715), which requires that the service cost component of net periodic pension and postretirement benefit cost be presented in the same line item as other employee compensation costs, while the other components be presented separately as non-operating income (expense). This ASU will be effective for the Company beginning in the first quarter of fiscal year 2019. The Company is currently in the process of assessing what impact this new standard may have on its consolidated financial statements.

(4) INVENTORIES

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

Inventories consisted of the following:

	January 31, 2018	July 31, 2017
	(In thousands)	
Raw materials	\$ 25,055	\$24,129
Work-in-process	15,448	713
Finished goods	4,708	9,527
	<u>\$ 45,211</u>	<u>\$34,369</u>

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

IWCO's inventory consists primarily of raw materials (paper) used to produce direct mail packages and work-in-process. Finished goods are generally not a significant element of the inventory as they are mailed immediately after the production and sorting process. With the acquisition of IWCO the Company recorded a fair value "step-up" to work-in-process inventory of \$7.0 million as a part of purchase accounting, which was recognized as a non-cash charge to cost of revenues during the three months ended January 31, 2018 as the inventory had been sold by the end of the period.

(5) INVESTMENTS

Trading securities

During the six months ended January 31, 2018, the Company received \$13.8 million in proceeds associated with the sale of publicly traded securities ("Trading Securities"), which included a cash gain of \$4.6 million. During the six months ended January 31, 2018, the Company recognized \$2.7 million in net non-cash net losses associated with its Trading Securities.

During the three months ended January 31, 2017, the Company received \$4.9 million in proceeds associated with the sale of publicly traded securities ("Trading Securities"), which included a \$0.6 million cash gain. During the three months ended January 31, 2017, the Company recognized \$0.4 million in net non-cash net gains associated with its Trading Securities. During the six months ended January 31, 2017, the Company received \$5.8 million in proceeds associated with the sale of Trading Securities, which included a \$0.6 million cash gain. During the six months ended January 31, 2017, the Company recognized \$0.5 million in net non-cash net losses associated with its Trading Securities. These gains and losses were recorded as a component of Other gains (losses), net on the Statements of Operations.

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As of January 31, 2018, the Company did not have any investments in Trading Securities. As of July 31, 2017, the Company had \$11.9 million in investments in Trading Securities.

(6) OTHER CURRENT AND LONG-TERM LIABILITIES

The following table reflects the components of “Accrued expenses” and “Other current liabilities”:

	January 31, 2018	July 31, 2017
	(In thousands)	
Accrued taxes	\$ 5,215	\$ 2,272
Accrued compensation	30,638	10,678
Accrued interest	4,190	1,366
Accrued audit, tax and legal	2,693	2,759
Accrued contract labor	1,538	1,632
Accrued worker’s compensation	6,347	—
Accrued other	24,050	19,191
	<u>\$ 74,671</u>	<u>\$37,898</u>
	(In thousands)	
	January 31, 2018	July 31, 2017
Accrued pricing liabilities	\$ 18,882	\$18,882
Line of credit liability	6,000	—
Customer postage deposits	10,457	—
Other	8,222	7,259
	<u>\$ 43,561</u>	<u>\$26,141</u>

As of January 31, 2018 and July 31, 2017, the Company had accrued pricing liabilities of approximately \$18.9 million for both periods. As previously reported by the Company, several adjustments were made to its historic financial statements for periods ending on or before January 31, 2012, the most significant of which related to the treatment of vendor rebates in its pricing policies. Where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract (collectively referred to as “pricing adjustments”), the Company concluded that these amounts were not properly recorded as revenue. Accordingly, revenue was reduced by an equivalent amount for the period that the rebate was estimated to have affected. A corresponding liability for the same amount was recorded in that period (referred to as accrued pricing liabilities). The Company believes that it may not ultimately be required to pay all of the accrued pricing liabilities, due in part to the nature of the interactions with its clients. The remaining accrued pricing liabilities at January 31, 2018 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 connection with the acquisition of IWCO the Company performed an analysis of the liability associated with IWCO’s sales tax. Based on the information currently available, a reserve of \$18.0 million was recorded on IWCO’s opening balance sheet. This reserve is subject to review during the measurement period and may be adjusted accordingly. As of January 31, 2018, other long-term liabilities includes sales tax liabilities of approximately \$18.0 million as based on the process and evaluation the associated payments are not expected to occur within the next twelve months.

(7) RESTRUCTURING, NET

Restructuring and other costs for the three and six months ended January 31, 2018 primarily included continuing charges for personnel reductions and facility consolidations in an effort to streamline operations across our global supply chain operations. It is expected that the payments of employee-related charges will be substantially completed during the fiscal year ended July 31, 2018. The remaining contractual obligations primarily relate to facility lease obligations for vacant space resulting from the previous restructuring activities of the Company. The Company anticipates that these contractual obligations will be substantially fulfilled by the end of December 2018.

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The Company recorded an immaterial restructuring charge during the six months ended January 31, 2018. The \$0.8 million restructuring charge recorded during the three months ended January 31, 2017 primarily consisted of \$0.2 million, \$0.3 million \$0.1 million and \$0.1 million of employee-related costs in the Americas, Asia, Europe and e-Business, respectively, related to the workforce reduction of 18 employees in our global supply chain operations. Of this amount, \$0.1 million related to contractual obligations. The \$1.4 million restructuring charge recorded during the three months ended October 31, 2016 primarily consisted of \$0.2 million, \$0.4 million and \$0.5 million of employee-related costs in the Americas, Asia and Europe, respectively, related to the workforce reduction of 50 employees in our global supply chain. Of this amount, \$0.3 million related to contractual obligations.

The following tables summarize the activities related to the restructuring accrual by expense category and by reportable segment for the six months ended January 31, 2018:

	Employee Related Expenses	Contractual Obligations	Total
	(In thousands)		
Accrued restructuring balance at July 31, 2017	\$ 100	\$ 86	\$ 186
Restructuring adjustments	19	22	41
Cash paid	(12)	(108)	(120)
Non-cash adjustments	5	—	5
Accrued restructuring balance at January 31, 2018	<u>\$ 112</u>	<u>\$ —</u>	<u>\$ 112</u>

	Americas	Asia	Europe	Direct marketing	All other	Consolidated Total
	(In thousands)					
Accrued restructuring balance at July 31, 2017	\$ 51	\$—	\$ 23	\$ —	\$ 112	\$ 186
Restructuring charges	—	—	—	—	—	—
Restructuring adjustments	27	1	2	—	11	41
Cash paid	(12)	—	—	—	(108)	(120)
Non-cash adjustments	2	(1)	(25)	—	29	5
Accrued restructuring balance at January 31, 2018	<u>\$ 68</u>	<u>\$—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 44</u>	<u>\$ 112</u>

The net restructuring charges for the three and six months ended January 31, 2018 and 2017 would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2018	2017	2018	2017
	(In thousands)			
Cost of revenue	\$ —	\$ 154	\$ 8	\$ 735
Selling, general and administrative	4	622	33	1,415
	<u>\$ 4</u>	<u>\$ 776</u>	<u>\$ 41</u>	<u>\$ 2,150</u>

(8) ACQUISITION OF IWCO DIRECT

On December 15, 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) by and among the Company, MLGS Merger Company, Inc., a Delaware corporation and newly formed wholly-owned subsidiary of the Company (“MLGS”), IWCO Direct Holdings Inc. a Delaware corporation (“IWCO”), CSC Shareholder Services, LLC, a Delaware limited liability company (solely in its capacity as representative), and the stockholders of IWCO. Pursuant to the Merger Agreement, MLGS was merged with and into IWCO, with IWCO surviving as a wholly-owned subsidiary of the Company (the “IWCO Acquisition”). The Company acquired IWCO as a part of the Company’s overall acquisition strategy to acquire profitable companies to utilize the Company’s tax net operating losses.

The Company acquired IWCO for total consideration of approximately \$469.2 million, net of purchase price adjustments. The Company financed the IWCO Acquisition through a combination of cash on hand and proceeds from a \$393.0 million term loan made under the below described financing agreement with Cerberus Business Finance, LLC, net of a \$2.5 million receivable from escrow for working capital claims. The transaction price included one-time transaction incentive awards of \$3.5 million paid to executives upon closing that were related to pre-existing management arrangements and were included as an element of the purchase price. In connection with the acquisition, the Company paid transaction costs of \$1.5 million at acquisition which was recorded as a component of selling, general and administrative expense. Goodwill related to the acquisition of IWCO is not deductible for tax purposes.

The following table summarizes the preliminary fair value of assets acquired and liabilities assumed at the date of the acquisition (in thousands):

Accounts receivable	\$ 47,841
Inventory	27,165
Other current assets	7,427
Property and equipment	87,976
Intangible assets	210,920
Goodwill	259,085
Other assets	3,040
Accounts payable	(31,069)
Accrued liabilities and other current liabilities	(35,790)
Customer deposits	(7,829)
Deferred income taxes	(79,918)
Other liabilities	(19,627)
Total consideration	<u>\$469,221</u>

Acquired intangible assets include trademarks and tradenames valued at \$20.5 million and customer relationships of \$190.4 million. The preliminary fair value estimate of trademarks and tradenames was prepared utilizing a relief from royalties method of valuation, while the preliminary fair value estimate of customer relationships was prepared using a multi-period excess earnings method of valuation. The trademarks and tradenames intangible asset will be amortized on a straight line basis over a 3 year estimated useful life. The customer relationship intangible asset will be amortized on a double-declining basis over an estimated useful life of 15 years. The acquired property and equipment consist mainly of machinery and equipment. The fair value of the acquired property and equipment was estimated using the cost approach to value, and applying industry standard normal useful lives and inflationary indices. In the preliminary allocation of the purchase price, the Company recognized \$259.1 million of goodwill which arose primarily from the synergies in its business and the assembled workforce of IWCO.

The following unaudited pro forma financial results are based on the Company’s historical consolidated financial statements and IWCO’s historical consolidated financial statements as adjusted to give effect to the Company’s acquisition of IWCO and related transactions. The unaudited pro forma financial information for the three and six months ended January 31, 2018 give effect to these transactions as if they had occurred on August 1, 2016. The unaudited pro forma results presented do not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of August 1, 2017, nor do they indicate the results of operations in future periods. Additionally, the unaudited pro forma results do not include the impact of possible business model changes, nor do they consider any potential impacts of current market conditions or revenues, reduction of expenses, asset dispositions, or other factors. The impact of these items could alter the following pro forma results.

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The pro forma results were adjusted to reflect incremental depreciation and amortization based on preliminary fair value adjustments for the acquired property, plant and equipment, and intangible assets. A reduction to interest expense is also reflected in the pro forma results to reflect the more favorable terms obtained with the new Credit Facility as compared to the interest rate under the former facility carried by IWCO (in thousands):

	<u>Three Months Ended</u>	<u>Six Months Ended</u>	<u>Three Months Ended</u>	<u>Six Months Ended</u>
	<u>January 31, 2017</u>	<u>January 31, 2017</u>	<u>January 31, 2018</u>	<u>January 31, 2018</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net revenue	\$ 239,375	\$ 466,979	\$ 208,393	\$ 433,006
Net income	\$ (7,034)	\$ (24,268)	\$ 68,827	\$ 59,787

(9) GOODWILL AND INTANGIBLE ASSETS

The Company conducts its goodwill impairment test on July 31 of each fiscal year. In addition, if and when events or circumstances change that could reduce the fair value of any of its reporting units below its carrying value, an interim test is performed. In making this assessment, the Company relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and transactions and marketplace data. The Company's goodwill of \$259.1 million as of January 31, 2018 relates to the Company's Direct Marketing reporting unit. There were no indicators of impairment identified related to the Company's Direct Marketing reporting unit during the three and six months ended January 31, 2018.

Intangible assets, as of January 31, 2018, include trademarks and tradenames with a carrying balance of \$20.2 million and customer relationships of \$186.6 million. The trademarks and tradenames intangible asset are being amortized on a straight line basis over a 3 year estimated useful life. The customer relationship intangible asset are being amortized on a double-declining basis over an estimated useful life of 15 years. Intangible assets deemed to have finite lives are amortized over their estimated useful lives, where the useful life is the period over which the asset is expected to contribute directly, or indirectly, to its future cash flows. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, impairment exists when the carrying amount of the intangible asset exceeds its fair value. At least annually, the remaining useful life is evaluated.

(10) DEBT

5.25% Convertible Senior Notes Payable

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

Holders of the Notes may convert all or any portion of their notes, in multiples of \$1,000 principal amount, at their option at any time prior to the close of business or the business day immediately preceding the maturity date. Each \$1,000 of principal of the Notes will initially be convertible into 166.2593 shares of our common stock, which is equivalent to an initial conversion price of approximately \$6.01 per share, subject to adjustment upon the occurrence of certain events, or, if the Company obtains the required consent from its stockholders, into shares of the Company's common stock, cash or a combination of cash and shares of its common stock, at the Company's election. If the Company has received stockholder approval, and it elects to settle conversions through the payment of cash or payment or delivery of a combination of cash and shares, the Company's conversion obligation will be based on the volume weighted average prices ("VWAP") of its common stock for each VWAP trading day in a 40 VWAP trading day observation period. The Notes and any of the shares of common stock issuable upon conversion have not been registered. As of January 31, 2018, the if-converted value of the Notes did not exceed the principal value of the Notes.

Holders will have the right to require the Company to repurchase their Notes, at a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, upon the occurrence of certain fundamental changes, subject to certain conditions. No fundamental changes occurred during the six months ended January 31, 2018.

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

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The Company has valued the debt using similar nonconvertible debt as of the original issuance date of the Notes and bifurcated the conversion option associated with the Notes from the host debt instrument and recorded the conversion option of \$28.1 million in stockholders' equity prior to the allocation of debt issuance costs. The initial value of the equity component, which reflects the equity conversion feature, is equal to the initial debt discount. The resulting debt discount on the Notes is being accreted to interest expense at the effective interest rate over the estimated life of the Notes. The equity component is included in the additional paid-in-capital portion of stockholders' equity on the Company's consolidated balance sheet. In addition, the debt issuance costs of \$3.4 million are allocated between the liability and equity components in proportion to the allocation of the proceeds. During the first quarter of fiscal year 2017, the Company adopted ASU No. 2015-03. As such, the issuance costs allocated to the liability component (\$2.5 million) are capitalized as a reduction of the principal amount of the Notes payable on the Company's balance sheet and amortized, using the effective-interest method, as additional interest expense over the term of the Notes. The issuance costs allocated to the equity component is recorded as a reduction to additional paid-in capital.

The fair value of the Company's Notes payable, calculated as of the closing price of the traded securities, was \$66.2 million and \$63.9 million as of January 31, 2018 and July 31, 2017, respectively. This value does not represent the settlement value of these long-term debt liabilities to the Company. The fair value of the Notes payable could vary each period based on fluctuations in market interest rates, as well as changes to our credit ratings. The Notes payable are traded and their fair values are based upon traded prices as of the reporting dates. As of January 31, 2018 and July 31, 2017, the net carrying value of the Notes was \$62.1 million and \$59.8 million, respectively.

	January 31, 2018	July 31, 2017
	(In thousands)	
Carrying amount of equity component (net of allocated debt issuance costs)	\$ 26,961	\$26,961
Principal amount of Notes	\$ 67,625	\$67,625
Unamortized debt discount	(5,110)	(7,227)
Unamortized debt issuance costs	(453)	(640)
Net carrying amount	<u>\$ 62,062</u>	<u>\$59,758</u>

As of January 31, 2018, the remaining period over which the unamortized discount will be amortized is 13 months.

	Three Months Ended January 31,		Six Months Ended January 31,	
	2018	2017	2018	2017
	(In thousands)		(In thousands)	
Interest expense related to contractual interest coupon	\$ 913	\$ 888	\$1,827	\$1,823
Interest expense related to accretion of the discount	1,076	999	2,117	1,940
Interest expense related to debt issuance costs	95	89	187	172
	<u>\$ 2,084</u>	<u>\$ 1,976</u>	<u>\$4,131</u>	<u>\$3,935</u>

During the three and six months ended January 31, 2018, the Company recognized interest expense associated with the Notes of \$2.1 million and \$4.1 million, respectively. During the three and six months ended January 31, 2017, the Company recognized interest expense of \$2.0 million and \$3.9 million, respectively. The effective interest rate on the Notes, including amortization of debt issuance costs and accretion of the discount, is 13.9%. The notes bear interest of 5.25%.

PNC Bank Credit Facility

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

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

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

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

The Credit Agreement contains certain customary negative covenants, which include limitations on mergers and acquisitions, the sale of assets, liens, guarantees, investments, loans, capital expenditures, dividends, indebtedness, changes in the nature of business, transactions with affiliates, the creation of subsidiaries, changes in fiscal year and accounting practices, changes to governing documents, compliance with certain statutes, and prepayments of certain indebtedness. The Credit Agreement also contains certain customary affirmative covenants (including periodic reporting obligations) and events of default, including upon a change of control. The Credit Agreement requires compliance with certain financial covenants providing for maintenance of specified liquidity, maintenance of a minimum fixed charge coverage ratio and/or maintenance of a maximum leverage ratio following the occurrence of certain events and/or prior to taking certain actions, all as more fully described in the Credit Agreement. The Company believes that the Credit Agreement provides greater financial flexibility to the Company and the ModusLink Borrowers and may enhance their ability to consummate one or several larger and/or more attractive acquisitions and should provide our clients and/or potential clients with greater confidence in the Company's and the ModusLink Borrowers' liquidity. During the three months ended January 31, 2018, the Company did not meet the criteria that would cause its financial covenants to be applicable. As of January 31, 2018 and July 31, 2017, the Company did not have any balance outstanding on the PNC Bank credit facility.

Cerberus Credit Facility

On December 15, 2017, MLGS, a wholly owned subsidiary of the Company, entered into a Financing Agreement (the "Financing Agreement"), by and among the MLGS (as the initial borrower), Instant Web, LLC, a Delaware corporation and wholly owned subsidiary of IWCO (as "Borrower"), IWCO, and certain of IWCO's subsidiaries (together with IWCO, the "Guarantors"), the lenders from time to time party thereto, and Cerberus Business Finance, LLC, as collateral agent and administrative agent for the lenders. MLGS was the initial borrower under the Financing Agreement, but immediately upon the consummation of the IWCO Acquisition, as described above, Borrower became the borrower under the Financing Agreement.

The Financing Agreement provides for \$393.0 million term loan facility (the "Term Loan") and a \$25.0 million revolving credit facility (collectively, the "Cerberus Credit Facility"). Proceeds of the Cerberus Credit Facility were used (i) to finance a portion of the IWCO Acquisition, (ii) to repay certain existing indebtedness of the Borrower and its subsidiaries, (iii) for working capital and general corporate purposes and (iv) to pay fees and expenses related to the Financing Agreement and the IWCO Acquisition.

The Cerberus Credit Facility has a maturity of five years. Borrowings under the Cerberus Credit Facility bear interest, at the Borrower's option, at a Reference Rate plus 3.75% or a LIBOR Rate plus 6.5%, each as defined the Financing Agreement. The initial interest rate under the Cerberus Credit Facility is at the LIBOR Rate option.

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The Term Loan under the Cerberus Credit Facility is repayable in consecutive quarterly installments, each of which will be in an amount equal per quarter of \$1,500,000 and each such installment to be due and payable, in arrears, on the last day of each calendar quarter commencing on March 31, 2018 and ending on the earlier of (a) December 15, 2022 and (b) upon the payment in full of all obligations under the Financing Agreement and the termination of all commitments under the Financing Agreement. Further, the Term Loan would be permanently reduced pursuant to certain mandatory prepayment events including an annual “excess cash flow sweep” of 50% of the consolidated excess cash flow, with a step-down to 25% when the Leverage Ratio (as defined in the Financing Agreement) is below 3.50:1.00; provided that, in any calendar year, any voluntary prepayments of the Term Loan shall be credited against the Borrower’s “excess cash flow” prepayment obligations on a dollar-for-dollar basis for such calendar year.

Borrowings under the Financing Agreement are fully guaranteed by the Guarantors and are collateralized by substantially all the assets of the Borrower and the Guarantors and a pledge of all of the issued and outstanding equity interests of each of IWCO’s subsidiaries.

The Financing Agreement contains certain representations, warranties, events of default, mandatory prepayment requirements, as well as certain affirmative and negative covenants customary for financing agreements of this type. These covenants include restrictions on borrowings, investments and dispositions, as well as limitations on the ability of the Borrower and the Guarantors to make certain capital expenditures and pay dividends. Upon the occurrence and during the continuation of an event of default under the Financing Agreement, the lenders under the Financing Agreement may, among other things, terminate all commitments and declare all or a portion of the loans under the Financing Agreement immediately due and payable and increase the interest rate at which loans and obligations under the Financing Agreement bear interest. During the three months ended January 31, 2018, the Company did not trigger any of these covenants. During the first quarter of fiscal year 2017, the Company adopted ASU No. 2015-03. As such, the debt issuance costs of \$1.3 million are capitalized as a reduction of the principal amount of Term Loan on the Company’s balance sheet and amortized, using the effective-interest method, as additional interest expense over the term of the Term Loan. As of January 31, 2018, the Company had \$6.0 million outstanding on the revolving credit facility. As of January 31, 2018, the principal amount outstanding on the Term Loan was \$393.0 million. As of January 31, 2018, the current and long-term net carrying value of the Term Loan was \$391.7 million.

(11) STOCKHOLDERS’ EQUITY

Preferred Stock

The Company’s Board of Directors (“the “Board”) has the authority, subject to any limitations prescribed by Delaware law, to issue shares of preferred stock in one or more series and to fix and determine the designation, privileges, preferences and rights and the qualifications, limitations and restrictions of those shares, including dividend rights, conversion rights, voting rights, redemption rights, terms of sinking funds, liquidation preferences and the number of shares constituting any series or the designation of the series, without any further vote or action by the stockholders. Any shares of the Company’s preferred stock so issued may have priority over its common stock with respect to dividend, liquidation and other rights. The Company’s board of directors may authorize the issuance of preferred stock with voting rights or conversion features that could adversely affect the voting power or other rights of the holders of its common stock. Although the issuance of preferred stock could provide us with flexibility in connection with possible acquisitions and other corporate purposes, under some circumstances, it could have the effect of delaying, deferring or preventing a change of control.

On December 15, 2017, the Company entered into a Preferred Stock Purchase Agreement (the “Purchase Agreement”) with SPH Group Holdings LLC (“SPHG Holdings”), pursuant to which the Company issued 35,000 shares of the Company’s newly created Series C Convertible Preferred Stock, par value \$0.01 per share (the “Preferred Stock”), to SPHG Holdings at a price of \$1,000 per share, for an aggregate purchase consideration of \$35.0 million (the “Preferred Stock Transaction”). The terms, rights, obligations and preferences of the Preferred Stock are set forth in a Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock of the Company (the “Series C Certificate of Designations”), which has been filed with the Secretary of State of the State of Delaware.

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Under the Series C Certificate of Designations, each share of Preferred Stock can be converted into shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), at an initial conversion price equal to \$1.96 per share, subject to appropriate adjustments for any stock dividend, stock split, stock combination, reclassification or similar transaction. Holders of the Preferred Stock will also receive cumulative dividends at 6% per annum payable in quarterly cash or Common Stock. If at any time the closing bid price of the Company's Common Stock exceeds 170% of the conversion price for at least five consecutive trading days (subject to appropriate adjustments for any stock dividend, stock split, stock combination, reclassification or similar transaction), the Company has the right to require each holder of Preferred Stock to convert all, or any whole number, of shares of the Preferred Stock into Common Stock.

Upon the occurrence of certain triggering events such as a liquidation, dissolution or winding up of the Company, either voluntary or involuntary, or the merger or consolidation of the Company or significant subsidiary, or the sale of substantially all of the assets or capital stock of the Company or a significant subsidiary, the holders of the Preferred Stock are entitled to receive, prior and in preference to any distribution of any of the assets or funds of the Company to the holders of other equity or equity equivalent securities of the Company other than the Preferred Stock by reason of their ownership thereof, an amount per share in cash equal to the sum of (i) one hundred percent (100%) of the stated value per share of Preferred Stock (initially \$1,000 per share) then held by them (as adjusted for any stock split, stock dividend, stock combination or other similar transactions with respect to the Preferred Stock), plus (ii) 100% of all declared but unpaid dividends, and all accrued but unpaid dividends on each such share of Preferred Stock, in each case as the date of the triggering event. On or after December 15, 2022, each holder of Preferred Stock can also require the Company to redeem its Preferred Stock in cash at a price equal to the Liquidation Preference (as defined in Series C Certificate of Designations) and accordingly the Preferred Stock has been classified in the Mezzanine section of the accompanying balance sheet.

Each holder of Preferred Stock has a vote equal to the number of shares of Common Stock into which its Preferred Stock would be convertible as of the record date, provided that the number of shares voted is based upon a conversion price which is no less than the greater of the book or market value of the Common Stock on the closing date of the purchase of the Preferred Stock. In addition, for so long as the Preferred Stock remains outstanding, the Company will not, directly or indirectly, and including in each case with respect to any significant subsidiary, without the affirmative vote of the holders of a majority of the Preferred Stock (i) liquidate, dissolve or wind up the Company or any significant subsidiary; (ii) consummate any transaction that would constitute or result in a Liquidation Event (as defined in the Series C Certificate of Designations); (iii) effect or consummate any Prohibited Issuance (as defined in the Series C Certificate of Designations); or (iv) create, incur, assume or suffer to exist any Indebtedness (as defined in the Series C Certificate of Designations) of any kind, other than certain existing Indebtedness of the Company and any replacement financing thereto, unless any such replacement financing be on substantially similar terms as such existing Indebtedness.

The Purchase Agreement provides that the Company will use its commercially reasonable efforts to effect the piggyback registration of the Common Stock issuable on the conversion of the Preferred Stock and any securities issued or issuable upon any stock split, dividend or other distribution, recapitalization or similar event with respect to the foregoing, with the Securities and Exchange Commission in all states reasonably requested by the holder in accordance with certain enumerated conditions. The Purchase Agreement also contains other representations, warranties and covenants, customary for an issuance of Preferred Stock in a private placement of this nature.

The Preferred Stock Transaction was approved and recommended to the Board by a special committee of the Board (the "Special Committee") consisting of independent directors not affiliated with Steel Partners Holdings GP Inc. ("Steel Holdings GP"), which controls the power to vote and dispose of the securities held by SPHG Holdings and its affiliates (see Note 18).

Common Stock

Each holder of the Company's common stock is entitled to:

- one vote per share on all matters submitted to a vote of the stockholders, subject to the rights of any preferred stock that may be outstanding;
- dividends as may be declared by the Company's board of directors out of funds legally available for that purpose, subject to the rights of any preferred stock that may be outstanding; and
- a pro rata share in any distribution of the Company's assets after payment or providing for the payment of liabilities and the liquidation preference of any outstanding preferred stock in the event of liquidation.

Holders of the Company's common stock have no cumulative voting rights, redemption rights or preemptive rights to purchase or subscribe for any shares of its common stock or other securities. All of the outstanding shares of common stock are fully paid and nonassessable. The rights, preferences and privileges of holders of its common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any existing series of preferred stock and any series of preferred stock that the Company may designate and issue in the future. There are no redemption or sinking fund provisions applicable to the Company's common stock.

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On March 12, 2013, stockholders of the Company approved the sale of 7,500,000 shares of newly issued common stock to Steel Partners Holdings L.P. (“Steel Holdings”), an affiliate of SPHG Holdings, at a price of \$4.00 per share, resulting in aggregate proceeds of \$30.0 million before transaction costs. The Company incurred \$2.3 million of transaction costs, which consisted primarily of investment banking and legal fees, resulting in net proceeds from the sale of \$27.7 million. In addition, as part of the transaction, the Company issued Steel Holdings a warrant to acquire an additional 2,000,000 shares at an exercise price of \$5.00 per share (the “Warrant”). These warrants were to expire after a term of five years after issuance. On December 15, 2017, contemporaneously with the closing of the Preferred Stock Transaction, the Company entered into a Warrant Repurchase Agreement (the “Warrant Repurchase Agreement”) with Steel Holdings pursuant to which the Company repurchased the Warrant for \$100. The Warrant was terminated by the Company upon repurchase. The Warrant Repurchase Agreement is more fully described in Note 18 to these Condensed Consolidated Financial Statements.

(12) OTHER GAINS (LOSSES), NET

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2018	2017	2018	2017
	(In thousands)			
Foreign currency exchange gains (losses)	\$ (1,436)	\$ 29	\$ (2,071)	\$ 426
Gains on Trading Securities	—	1,011	1,876	94
Other, net	(280)	(21)	(99)	11
	<u>\$ (1,716)</u>	<u>\$ 1,019</u>	<u>\$ (294)</u>	<u>\$ 531</u>

The Company recorded foreign exchange gains (losses) of approximately \$(1.4) million and \$29 thousand during the three months ended January 31, 2018 and 2017, respectively. For the three months ended January 31, 2018, the net losses primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$(2.3) million, \$1.3 million and \$(0.7) million in Corporate, Europe and Asia, respectively. For the three months ended January 31, 2017, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$0.6 million, \$(0.5) million and \$(0.1) million in Corporate, Asia and Europe, respectively.

During the three months ended January 31, 2017, the Company recognized \$1.0 million in net gains associated with its Trading Securities.

The Company recorded foreign exchange gains (losses) of approximately \$(2.1) million and \$0.4 million during the six months ended January 31, 2018 and 2017, respectively. For the six months ended January 31, 2018, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$(2.2) million, \$1.0 million and \$(1.1) million in Corporate, Europe and Asia, respectively. For the six months ended January 31, 2017, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$1.3 million, \$(0.4) million and \$(0.4) million in Corporate, Asia and Europe, respectively.

During the six months ended January 31, 2018, the Company recognized \$2.7 million in net non-cash losses associated with its Trading Securities. During the six months ended January 31, 2018, the Company recognized \$4.6 million in net cash gains associated with its Trading Securities.

(13) INCOME TAXES

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the six months ended January 31, 2018, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of January 31, 2018, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$1.8 million. As of July 31, 2017, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$0.7 million.

Uncertain Tax Positions

In accordance with the Company’s accounting policy, interest related to unrecognized tax benefits is included in the provision of income taxes line of the Condensed Consolidated Statements of Operations. As of January 31, 2018 and July 31, 2017, the liabilities for interest expense related to uncertain tax positions were immaterial. The Company did not accrue for penalties related to income tax

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positions as there were no income tax positions that required the Company to accrue penalties. The Company does not expect any unrecognized tax benefits to reverse in the next twelve months. The Company is subject to U.S. federal income tax and various state, local and international income taxes in numerous jurisdictions. The federal and state tax returns are generally subject to tax examinations for the tax years ended July 31, 2013 through July 31, 2017. To the extent the Company has tax attribute carryforwards, the tax year in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period. In addition, a number of tax years remain subject to examination by the appropriate government agencies for certain countries in the Europe and Asia regions. In Europe, the Company's 2009 through 2016 tax years remain subject to examination in most locations, while the Company's 2005 through 2016 tax years remain subject to examination in most Asia locations.

Net Operating Loss

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

Tax Benefits Preservation Plan

On January 19, 2018, our Board adopted a Tax Benefits Preservation Plan (the "Tax Plan") and with American Stock Transfer & Trust Company, LLC, as rights agent (the "Rights Agent"). The Tax Plan is designed to preserve the Company's ability to utilize its Tax Benefits and is similar to plans adopted by other public companies with significant Tax Benefits. at its 2017 Annual Meeting of Stockholders.

The Board will be asking the Company's stockholders to approve the Tax Plan at its 2017 Annual Meeting of Stockholders (the 2017 Meeting"). If the Tax Plan is not approved by stockholders at the 2017 Meeting, the Tax Plan will automatically expire immediately following the final adjournment of the 2017 Meeting if stockholder approval is not received.

The Company had net operating loss carryforwards for federal and state tax purposes of approximately \$2.1 billion and \$209.8 million, respectively, as of January 31, 2018. The Company's ability to use its Tax Benefits would be substantially limited if the Company undergoes an "ownership change" (within the meaning of Section 382 of the Internal Revenue Code). The Tax Plan is intended to prevent an "ownership change" of the Company that would impair the Company ability to utilize its Tax Benefits.

As part of the plan Tax Plan, the Board declared a dividend of one right (a "Right") for each share of Common Stock then outstanding. The dividend was payable to holders of record as of the close of business on January 29, 2018. Any shares of Common Stock issued after January 29, 2018, will be issued together with the Rights. Each Right initially represents the right to purchase one one-thousandth of a share of newly created Series D Junior Participating Preferred Stock.

Initially, the Rights will be attached to all certificates representing shares of Common Stock then outstanding and no separate rights certificates will be distributed. In the case of book entry shares, the Rights will be evidenced by notations in the book entry accounts. Subject to certain exceptions specified in the Plan, the Rights will separate from the Common Stock and a distribution date (the "Distribution Date") will occur upon the earlier of (i) ten (10) business days following a public announcement that a stockholder (or group) has become a beneficial owner of 4.99-percent or more of the shares of Common Stock then outstanding and (ii) ten (10) business days (or such later date as the Board determines) following the commencement of a tender offer or exchange offer that would result in a person or group becoming a 4.99-percent stockholder.

Pursuant to the Tax Plan and subject to certain exceptions, if a stockholder (or group) becomes a 4.99-percent stockholder after adoption of the Tax Plan, the Rights would generally become exercisable and entitle stockholders (other than the 4.99-percent stockholder or group) to purchase additional shares of Steel Connect, Inc. at a significant discount, resulting in substantial dilution in the economic interest and voting power of the 4.99-percent stockholder (or group). In addition, under certain circumstances in which Steel Connect, Inc is acquired in a merger or other business combination after a non-exempt stockholder (or group) becomes a 4.99-percent stockholder, each holder of the Right (other than the 4.99-percent stockholder or group) would then be entitled to purchase shares of the acquiring company's common stock at a discount.

The Rights are not exercisable until the Distribution Date and will expire at the earliest of (i) 11:59 p.m. on the date that the votes of the stockholders of the Company with respect to the Company's next annual meeting or special meeting of stockholders are certified (which date will be no later than January 18, 2019), unless the continuation of the Tax Plan is approved by the affirmative vote of the majority of shares of Common Stock present at such meeting of stockholders (in which case clause (ii) will govern); (ii) 11:59 p.m., on January 18, 2021; (iii) the time at which the Rights are redeemed or exchanged as provided in the Tax Plan; and (iv) the time at which the Board determines that the Tax Plan is no longer necessary or desirable for the preservation of Tax Benefits.

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Protective Amendment

On December 9, 2014, the Company's stockholders voted in favor of an amendment to the Restated Certificate of Incorporation of the Company that was designed to protect the long-term tax benefits presented by our NOLs and the Certificate of Amendment of the Restated Certificate of Incorporation of the Company effecting such amendment was filed with the State of Delaware on December 29, 2014 (the "Original Protective Amendment"). The Original Protective Amendment expired in December 29, 2017. The Board has determined to replace the Original Protective Amendment with a new similar amendment to our Restated Certificate of Incorporation (the "Protective Amendment"). On March 6, 2018, the Board, subject to approval by stockholders, approved a Protective Amendment.

The Protective Amendment, which is designed to prevent certain transfers of our securities that could result in an ownership change. The Protective Amendment will not be put into effect unless and until it is approved by stockholders at the 2017 Meeting. Our new Tax Benefits Preservation Plan, dated as of January 19, 2018, with American Stock Transfer & Trust Company, LLC was entered into on January 19, 2018 following Board approval. The Tax Plan requires stockholder approval to remain in effect after the 2017 Meeting, and will expire immediately following the final adjournment of the 2017 Meeting if stockholder approval is not received.

IWCO Acquisition

As more fully described in Note 8 to these unaudited Condensed Consolidated Financial Statements, the Company completed the IWCO Acquisition on December 15, 2017. Going forward, the Company and IWCO will file a consolidated federal tax return. In purchase accounting, a deferred tax liability of \$79.9 million was computed for IWCO, Inc. After considering the transaction, the projected combined results and available temporary differences from the acquired business, the Company has determined in accordance with ASC 805-740-30-3 that its valuation allowance in the same amount of IWCO's full deferred tax liability may be released and the benefit be recognized in income.

The Tax Cuts and Jobs Act

In December 2017, the Tax Cuts and Jobs Act, or the Tax Act ("TCJA"), was signed into law. Among other things, the Tax Act permanently lowers the corporate federal income tax rate to 21% from the existing maximum rate of 35%, effective for tax years including or commencing January 1, 2018. As a result of the reduction of the corporate federal income tax rate to 21%, U.S. GAAP requires companies to revalue their deferred tax assets and deferred tax liabilities as of the date of enactment, with the resulting tax effects accounted for in the reporting period of enactment. This revaluation resulted in a provision of \$266.3 million to income tax expense in continuing operations and a corresponding reduction in the valuation allowance. As a result, there was no impact to the Company's Statement of Operations as a result of reduction in tax rates. The total provision of \$266.3 million included a provision of \$296.1 million to income tax expense for the Company and a benefit of \$29.8 million to income tax expense for IWCO.

Beginning on January 1, 2018, the TCJA also requires a minimum tax on certain future earnings generated by foreign subsidiaries while providing for future tax-free repatriation of such earnings through a 100% dividends-received deduction. In accordance with ASC Topic 740, Income Taxes, and SAB 118, the Company has estimated that no provisional charge will be recorded related to the TCJA based on its initial analysis using available information and estimates. Given the significant complexity of the TCJA, anticipated guidance from the U.S. Treasury Department about implementing the TCJA and the potential for additional guidance from the SEC or the FASB related to the TCJA or additional information becoming available, the Company's provisional charge may be adjusted during 2018 and is expected to be finalized no later than December 31, 2018. Other provisions of the TCJA that impact future tax years are still being assessed.

Our preliminary estimate of the TCJA and the remeasurement of our deferred tax assets and liabilities is subject to the finalization of management's analysis related to certain matters, such as developing interpretations of the provisions of the TCJA, changes to certain estimates and the filing of our tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the TCJA may require further adjustments and changes in our estimates. The final determination of the TCJA and the remeasurement of our deferred assets and liabilities will be completed as additional information becomes available, but no later than one year from the enactment of the TCJA.

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(14) EARNINGS PER SHARE

The Company calculates earnings per share in accordance with ASC Topic 260, “Earnings per Share.” The following table reconciles earnings per share for the three and six months ended January 31, 2018 and 2017:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Net income (loss)	\$65,089	\$ (2,906)	\$59,852	\$(11,449)
Less: Preferred dividends on redeemable preferred stock	(259)	—	(259)	—
Net income (loss) attributable to common stockholders	<u>\$64,830</u>	<u>\$ (2,906)</u>	<u>\$59,593</u>	<u>\$(11,449)</u>
Effect of dilutive securities:				
5.25% Convertible Senior Notes	1,748	—	3,459	—
Redeemable preferred stock	259	—	259	—
Net income (loss) attributable to common stockholders after assumed conversions	<u>\$66,837</u>	<u>\$ (2,906)</u>	<u>\$63,311</u>	<u>\$(11,449)</u>
Weighted average common shares outstanding	58,341	55,083	56,776	55,031
Weighted average common equivalent shares arising from dilutive stock options, restricted stock, convertible notes and convertible preferred stock	20,742	—	16,107	—
Weighted average number of common and potential common shares	<u>79,083</u>	<u>55,083</u>	<u>72,883</u>	<u>55,031</u>
Basic net earning (loss) per share attributable to common stockholders:	\$ 1.11	\$ (0.05)	\$ 1.05	\$ (0.21)
Diluted net earning (loss) per share attributable to common stockholders:	\$ 0.85	\$ (0.05)	\$ 0.87	\$ (0.21)

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

For both the three and six months ended January 31, 2018, approximately 0.5 million common stock equivalent shares were excluded from the denominator in the calculation of diluted earnings per share as their inclusion would have been antidilutive.

For the three and six months ended January 31, 2017, approximately 14.2 million and 14.5 million, respectively, common stock equivalent shares were excluded from the denominator in the calculation of diluted earnings per share as their inclusion would have been antidilutive.

(15) SHARE-BASED PAYMENTS

The following table summarizes share-based compensation expense related to employee stock options, employee stock purchases and employee and non-employee non-vested and vested shares for the three and six months ended January 31, 2018 and 2017, which was allocated as follows:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2018	2017	2018	2017
	(In thousands)			
Cost of revenue	\$ 1	\$ 15	\$ 12	\$ 31
Selling, general and administrative	7,104	174	7,385	350
	<u>\$ 7,105</u>	<u>\$ 189</u>	<u>\$ 7,397</u>	<u>\$ 381</u>

During December 2017, the Board, upon the recommendation of the Special Committee and the Human Resources and Compensation Committee, of the Board (the “Compensation Committee”), approved equity grants to certain members of the Board, in each case effective upon the closing of the IWCO Acquisition and in consideration for current and future services to the Company and which are being accounted for in accordance with ASC 505-50, Equity—Equity Based Payments to Non-Employees. Certain of these non-employee awards are subject to market conditions in order to vest. Additionally, some of the awards are subject to shareholder approval. The expense for the three months ended January 31, 2018 related to these non-employee awards was \$6.6 million.

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At January 31, 2018, there was an immaterial balance of total unrecognized compensation cost related to Stock Options issued under the Company's plans. At January 31, 2018, there was approximately \$1.1 million of total unrecognized compensation cost related to non-vested share-based compensation awards under the Company's plans.

(16) COMPREHENSIVE INCOME (LOSS)

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

Accumulated other comprehensive items consist of the following:

	Foreign currency items	Pension items	Unrealized gains (losses) on securities	Total
	(In thousands)			
Accumulated other comprehensive income (loss) at July 31, 2017	\$ 7,522	\$(3,376)	\$ 167	\$4,313
Foreign currency translation adjustment	3,926	—	—	3,926
Net unrealized holding gain on securities	—	—	16	16
Pension liability adjustments	—	26	—	26
Net current-period other comprehensive income	<u>3,926</u>	<u>26</u>	<u>16</u>	<u>3,968</u>
Accumulated other comprehensive income (loss) at January 31, 2018	<u>\$11,448</u>	<u>\$(3,350)</u>	<u>\$ 183</u>	<u>\$8,281</u>

(17) SEGMENT INFORMATION

The Company has five operating segments: Americas; Asia; Europe; Direct Marketing; and e-Business. Direct Marketing is a new operating segment which represents IWCO. 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 Direct Marketing. In addition to its four reportable segments, the Company reports an All Other category. The All Other category primarily represents the e-Business operating segment. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance, share-based compensation and acquisition costs which are not allocated to the Company's reportable segments. The Corporate-level balance sheet information includes cash and cash equivalents, Notes payables and other assets and liabilities which are not identifiable to the operations of the Company's operating segments. All significant intra-segment amounts have been eliminated.

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

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2018	2017	2018	2017
	(In thousands)			
Net revenue:				
Americas	\$ 13,764	\$ 27,183	\$ 28,603	\$ 53,061
Asia	36,290	38,861	79,802	81,734
Europe	37,893	44,910	76,283	90,091
Direct Marketing	56,913	—	56,913	—
All Other	6,259	6,614	12,040	14,009
	<u>\$151,119</u>	<u>\$117,568</u>	<u>\$253,641</u>	<u>\$238,895</u>
Operating income (loss):				
Americas	\$ (2,285)	\$ (1,720)	\$ (4,484)	\$ (5,576)
Asia	15,730	2,312	19,899	4,089
Europe	(3,464)	40	(6,324)	(2,551)
Direct Marketing	(2,825)	—	(2,825)	—
All Other	(1,350)	(889)	(2,795)	(545)
Total Segment operating income (loss)	5,806	(257)	3,471	(4,583)
Corporate-level activity	(10,382)	(1,247)	(11,877)	(2,563)
Total operating loss	<u>(4,576)</u>	<u>(1,504)</u>	<u>(8,406)</u>	<u>(7,146)</u>
Total other expense	8,199	1,075	8,720	3,427
Loss before income taxes	<u>\$ (12,775)</u>	<u>\$ (2,579)</u>	<u>\$ (17,126)</u>	<u>\$ (10,573)</u>

Net revenue and operating loss associated with Direct Marketing is for the period from December 15, 2017 to January 31, 2018. The Direct Marketing operating loss includes certain purchase accounting adjustments associated with the IWCO acquisition.

	January 31,	July 31,
	2018	2017
	(In thousands)	
Total assets:		
Americas	\$ 21,944	\$ 21,876
Asia	51,805	63,819
Europe	57,039	64,639
Direct Marketing	646,840	—
All Other	20,020	20,703
Sub-total - segment assets	797,648	171,037
Corporate	72,462	110,261
	<u>\$ 870,110</u>	<u>\$281,298</u>

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2018	2017	2018	2017
	(In thousands)			
Supply chain services	\$ 87,947	\$ 110,954	\$ 184,688	\$ 224,886
Direct Marketing	56,913	—	56,913	—
e-Business services	6,259	6,614	12,040	14,009
	<u>\$151,119</u>	<u>\$117,568</u>	<u>\$253,641</u>	<u>\$238,895</u>

As of January 31, 2018, approximately \$567.6 million of the Company's long-lived assets were located in the U.S.A. As of July 31, 2017, approximately \$9.3 million of the Company's long-lived assets were located in the U.S.A.

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For the three months ended January 31, 2018, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$72.0 million, \$28.2 million, \$16.5 million and \$18.3 million, respectively. For the three months ended January 31, 2017, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$27.5 million, \$31.9 million, \$20.0 million and \$21.7 million, respectively.

For the six months ended January 31, 2018, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$87.1 million, \$63.0 million, \$31.8 million and \$40.8 million, respectively. For the six months ended January 31, 2017, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$54.3 million, \$68.1 million, \$36.8 million and \$48.0 million, respectively.

(18) RELATED PARTY TRANSACTIONS

Preferred Stock Transaction and Warrant Repurchase

On December 15, 2017, the Company entered into a Preferred Stock Purchase Agreement with SPHG Holdings, pursuant to which the Company issued 35,000 shares of the Company's newly created Series C Convertible Preferred Stock, par value \$0.01 per share (the Preferred Stock), to SPHG Holdings at a price of \$1,000 per share, for an aggregate purchase consideration of \$35.0 million. The terms, rights, obligations and preferences of the Preferred Stock are set forth in a Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock of the Company, which has been filed with the Secretary of State of the State of Delaware.

Under the Series C Certificate of Designations, each share of Preferred Stock can be converted into shares of the our Common Stock, at an initial conversion price equal to \$1.96 per share, subject to appropriate adjustments for any stock dividend, stock split, stock combination, reclassification or similar transaction. Holders of the Preferred Stock will also receive cumulative dividends at 6% per annum payable in cash or Common Stock. If at any time the closing bid price of the Company's Common Stock exceeds 170% of the conversion price for at least five consecutive trading days (subject to appropriate adjustments for any stock dividend, stock split, stock combination, reclassification or similar transaction), the Company has the right to require each holder of Preferred Stock to convert all, or any whole number, of shares of the Preferred Stock into Common Stock.

The Preferred Stock Transaction was approved and recommended to the Board by the Special Committee of the Board. Each member of the Special Committee was independent and not affiliated with Steel Holdings GP, which controls the power to vote and dispose of the securities held by SPHG Holdings and its affiliates.

On December 15, 2017, contemporaneously with the closing of the Preferred Stock Transaction, the Company entered into a Warrant Repurchase Agreement with Steel Holdings, an affiliate of SPHG Holdings, pursuant to which the Company repurchased for \$100 the warrant to acquire 2,000,000 shares of the Common Stock that the Company had previously issued to Steel Holdings. The Warrant, which was to expire in 2018, was terminated by the Company upon repurchase.

Management Services Agreement

December 24, 2014, the Company entered into a Management Services Agreement with SP Corporate Services LLC ("SP Corporate"), effective as of January 1, 2015 (as amended, the "Management Services Agreement"). SP Corporate is an indirect wholly owned subsidiary of Steel Holdings and is a related party. Pursuant to the Management Services Agreement, SP Corporate provided the Company and its subsidiaries with the services of certain employees, including certain executive officers, and other corporate services.

The Management Services Agreement had an initial term of six months. On June 30, 2015, the Company entered into an amendment that extended the term of the Management Services Agreement to December 31, 2015 and provided for automatic renewal for successive one year periods, unless and until terminated in accordance with the terms set forth therein, which include, under certain circumstances, the payment by the Company of certain termination fees to SP Corporate. On March 10, 2016, the Company entered into a Second Amendment to the Management Services Agreement with SPH Services, Inc. ("SPH Services") pursuant to which SPH Services assumed rights and responsibilities of SP Corporate and the services provided by SPH Services to the Company were modified pursuant to the terms of the amendment. SPH Services is the parent of SP Corporate and an affiliate of SPHG Holdings. On March 10, 2016, the Company entered into a Transfer Agreement with SPH Services pursuant to which the parties agreed to transfer to the Company certain individuals who provide corporate services to the Company (the "Transfer Agreement"). SP Corporate and Steel Partners LLC merged with and into SPH Services, with SPH Services surviving. SPH Services has since changed its name to Steel Services Ltd. ("Steel Services"). On September 1, 2017, the Company entered into a Third Amendment to the Management Services Agreement, which reduced the fixed monthly fee paid by the Company to Steel Services under the Management Services Agreement from \$175,000 per month to \$95,641 per month. The monthly fee is subject to review and adjustment by agreement between the Company and Steel Services for periods commencing in fiscal 2016 and beyond. Additionally, the Company may be required to reimburse Steel Services and its affiliates for all reasonable and necessary business expenses incurred on our behalf in connection with the performance of the services under the Management Services Agreement, including travel expenses. The Management Services Agreement provides that, under certain circumstances, the Company may be required to indemnify and hold harmless Steel Services and its affiliates and employees from any claims or liabilities by a third party in connection with activities or the rendering of services under the Management Services Agreement. Total expenses incurred related to this agreement for the three and six months ended January 31, 2018 were \$0.4 million and \$0.9 million, respectively. Total expenses incurred related to this agreement for the three and six months ended January 31, 2017 were \$0.5 million and \$1.1 million, respectively. As of January 31, 2018 and July 31, 2017, amounts due to SP Corporate and Steel Services were \$0.5 million and \$0.3 million, respectively.

The Related Party Transactions Committee of the Board (the "Related Party Transactions Committee") approved the entry into the Management Services Agreement (and the first two amendments thereto) and the Transfer Agreement. The Audit Committee of the Board of Directors (the "Audit Committee") approved the third amendment to the Management Services Agreement. The Related Party Transactions Committee held the responsibility to review, approve and ratify related party transactions from November 20, 2014, until October 11, 2016. On October 11, 2016, the Board adopted a Related Person Transaction Policy that is administered by the Audit Committee and applies to all related party transactions. As of October 11, 2016, the Audit Committee reviews all related party transactions on an ongoing basis and all such transactions must be approved or ratified by the Audit Committee.

On December 15, 2017, the Board, upon the recommendation of the Special Committee and the Compensation Committee, approved a total of 5.5 million restricted stock grants and market performance based restricted stock grants to non-employee directors Messrs. Howard, Fejes and Lichtenstein, the Executive Chairman of the Board, in each case effective upon the closing of the IWCO Acquisition (the "Grant Date") and in consideration for current and future services to the Company. Messrs. Howard, Fejes and Lichtenstein are all affiliated with Steel Holdings GP, which is a wholly-owned subsidiary of

Steel Holdings. These awards were measured based on the fair market value on the Grant Date. Total expense incurred relating to these grants for the three and six months ended January 31, 2018 was \$6.6 million.

Mutual Securities, Inc. ("Mutual Securities") serves as the broker and record-keeper for all the transactions associated with the Trading Securities. An officer of SP Corporate and of the General Partner of Steel Holdings is a registered principal of Mutual Securities. Commissions charged by Mutual Securities are generally commensurate with commissions charged by other institutional brokers, and the Company believes its use of Mutual Securities is consistent with its desire to obtain best price and execution. During the three and six months ended January 31, 2018 and 2017, Mutual Securities received an immaterial amount in commissions associated with these transactions.

(19) FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES

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

- Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets
- Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborated inputs
- Level 3: Unobservable inputs for which there is little or no market data and which require the Company to develop its own assumptions about how market participants would price the assets or liabilities

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

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

The following tables present the Company's financial assets measured at fair value on a recurring basis as of January 31, 2018 and July 31, 2017, classified by fair value hierarchy:

(In thousands)	January 31, 2018	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
<u>Assets:</u>				
Money market funds	\$ 41,034	\$ 41,034	\$ —	\$ —

(In thousands)	July 31, 2017	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
<u>Assets:</u>				
Marketable equity securities	\$ 11,898	\$ 11,898	\$ —	\$ —
Money market funds	85,683	85,683	—	—

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

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

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

The Company's only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were certain assets subject to long-lived asset impairment. The Company reviews the carrying amounts of these assets whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fair Value of Financial Instruments

The Company's financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable, funds held for clients and debt, and are reflected in the financial statements at cost. With the exception of the Notes payable and long-term debt, cost approximates fair value for these items due to their short-term nature. We believe that the carrying value of our long-term debt approximates fair value because the stated interest rates of this debt is consistent with current market rates.

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

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

	<u>January 31, 2018</u>		<u>July 31, 2017</u>		<u>Fair Value Hierarchy</u>
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	
	<u>(In thousands)</u>				
Notes payable	\$62,062	\$ 66,188	\$59,758	\$ 63,852	Level 1

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

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

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended that involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words “believes”, “anticipates”, “plans”, “expects” and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed in Part II—Item 1A below and elsewhere in this report and the risks discussed in the Company’s Annual Report on Form 10-K filed with the SEC on October 16, 2017. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis, judgment, belief or expectation only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as required by applicable securities laws and regulations.

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

Overview

Steel Connect, Inc. provides comprehensive physical and digital supply chain optimization services (the “Supply Chain Business”) that are designed to improve clients’ revenue, cost, sustainability and customer experience objectives. We provide services to leading companies across a wide spectrum of industries, including consumer electronics, communications, computing, medical devices, software, and retail, among others. The Supply Chain Business operations are supported by a global footprint that includes more than 20 sites across North America, Europe, and the Asia Pacific region.

IWCO Direct delivers highly-effective data-driven marketing solutions for its customers, which represent some of the largest and most respected brands in the world. Its full range of services includes strategy, creative and production for multichannel marketing campaigns, along with one of the industry’s most sophisticated postal logistics programs for direct mail. Through its Mail-Gard® product, IWCO Direct also offers business continuity and disaster recovery services to protect against unexpected business interruptions, along with providing print and mail outsourcing services. IWCO Direct is the largest direct mail production provider in North America, with the largest platform of continuous digital print technology and a growing direct marketing agency service. Their solutions enable customers to improve Customer Lifetime Value (CLV), which in turn, has led to and longer customer relationships.

IWCO has administrative offices in Chanhassen, MN. and has three facilities in Chanhassen MN., one facility in Little Falls, MN., one facility in Warminster, PA. and two facilities in Hamburg PA.

ModusLink operates an integrated physical and digital supply chain system infrastructure that extends from front-end order management through distribution and returns management. This end-to-end solution enables clients to link supply and demand in real-time, improve visibility and performance throughout the supply chain, and provide real-time access to information for greater collaboration and making informed business decisions. We believe that our clients can benefit from our global integrated business solution, especially given the increased usage of connected devices and digitalized solutions.

Historically, a significant portion of our revenue from our Supply Chain Business has been generated from clients in the computer and software markets. These markets, while large in size, are mature and, as a result, gross margins in these markets tend to be lower than other markets the Company operates in. To address this, in addition to the computer and software markets, we have expanded our sales focus to include additional markets such as communications and consumer electronics, with a long-term focus on expanding in growth industries, such as the connected home, and connected healthcare, among others. We believe these markets, and other verticals we operate in, may experience faster growth than our historical markets, and represent opportunities to realize higher gross margins on the services we offer. Companies in these markets often have significant need for a supply chain partner who will be an extension to their business models. We believe the scope of our service offerings, including value-added warehousing and distribution, repair and recovery, aftersales, returns management, financial management, entitlement management, contact center support, material planning and factory supply, and e-Business will increase the overall value of the supply chain solutions we deliver to our existing clients and to new clients.

Many of ModusLinks clients’ products are subject to seasonal consumer buying patterns. As a result, the services we provide to our clients are also subject to seasonality, with higher revenue and operating income typically being realized from handling our clients’ products during the first half of our fiscal year, which includes the holiday selling season. Furthermore, many of our clients’ have global operations and we believe they have been adversely impacted by continued economic pressures in certain global regions.

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As a large portion of ModusLink's revenue comes from outsourcing services provided to clients such as retail products and consumer electronics companies, our operating performance has been and may continue to be adversely affected by declines in the overall performance within these sectors and uncertainty affecting the world economy. In addition, the drop in consumer demand for products of certain clients has had and may continue to have the effect of reducing our volumes and adversely affecting our revenue, gross margin and overall operating performance. Additionally, the markets for our services are generally very competitive, though we believe we have a compelling and differentiated offering due to the value-added services we provide, our commitment to client management, and our global reach. 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. We have developed plans and will continue to monitor plans to address process improvements and realize other efficiencies throughout our global footprint with a goal to reduce cost, remove waste and improve our overall gross margins. There can be no assurance that these actions will improve gross margins. Increased competition as well as industry consolidation and/or low demand for our clients' products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We generally manage margin and pricing pressures in several ways, including efforts to target new markets, expand and enhance our service offerings, improve the efficiency of our processes and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, consolidating and leveraging our global facility footprint, drive process and efficiency reforms and other actions designed to improve the productivity of our operations.

IWCO's services include (a) development of direct mail marketing strategies (b) creative services to design direct mail (c) printing and compiling of direct mail pieces into envelopes ready for mailing (d) comingling services to sort mail produced for various customers, by destination to achieve postal savings (e) also business continuity and disaster recovery services to protect against unexpected business interruptions. The major markets served by IWCO include Financial Services, Multiple-System Operations (cable or direct-broadcast satellite TV systems) Insurance and to a lesser extent Subscription/Services, Healthcare, Travel/Hospitality and other. Direct mail is a critical piece of marketing for most of its current customers. The customers served by IWCO include some of the biggest brands in the world with the top ten customers accounting for 52% of its revenues, with no single customer accounting for greater than 7% of its revenues included in the period from the acquisition date of December 15, 2017 to January 31, 2018. IWCO's differentiators include but not limited to its capacity to satisfy Tier 1 marketers, provide attractive economics to its clients and provides innovation on various formats. Management believes that direct mail will remain an important part of its customer's budgets for the foreseeable future.

Historically, a limited number of key clients have accounted for a significant percentage of our revenue. For the three months ended January 31, 2018, our top ten clients collectively accounted for approximately 48% of our net revenue. We expect to continue to derive the vast majority of our revenue from sales to a small number of key clients, and we plan to expand into new markets and over time, diversify the concentration of revenue across additional clients. In general, we do not have any agreements which obligate any client to buy a minimum amount of services from us or designate us as an exclusive service provider. Consequently, our net revenue is subject to demand variability by our clients. The level and timing of orders placed by our clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. By diversifying into new markets and improving the operational support structure for our clients, we expect to offset the adverse financial impact such factors may bring about.

For the three months ended January 31, 2018, the Company reported net revenue of \$151.1 million, operating loss of \$4.6 million, loss before income taxes of \$12.8 million and net income of \$65.1 million. For the six months ended January 31, 2018, the Company reported net revenue of \$253.6 million, operating loss of \$8.4 million, loss before income taxes of \$17.1 million and net income of \$59.9 million.

For the three months ended January 31, 2017, the Company reported net revenue of \$117.6 million, operating loss of \$1.5 million, loss before income taxes of \$2.6 million and net loss of \$2.9 million. For the six months ended January 31, 2017, the Company reported net revenue of \$238.9 million, operating loss of \$7.1 million, loss before income taxes of \$10.6 million and net loss of \$11.4 million.

At January 31, 2018, we had cash and cash equivalents of \$106.4 million, and working capital of \$70.6 million.

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Basis of Presentation

The Company presents its financial information in accordance with accounting principles generally accepted in the United States, U.S. GAAP (or “GAAP”). The Company has five operating segments: Americas; Asia; Europe; Direct Marketing; and e-Business. The Company has four reportable segments: Americas, Asia, Europe and Direct Marketing. In addition to its four reportable segments, the Company reports an All Other category. The All Other category primarily represents the e-Business operating segment. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal and finance, which are not allocated to the Company’s reportable segments. The Corporate-level balance sheet information includes cash and cash equivalents, Notes payables and other assets and liabilities which are not identifiable to the operations of the Company’s operating segments.

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

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Results of Operations

Three months ended January 31, 2018 compared to the three months ended January 31, 2017

Net Revenue:

	Three Months Ended January 31, 2018	As a % of Total Net Revenue	Three Months Ended January 31, 2017	As a % of Total Net Revenue	\$ Change	% Change
(In thousands)						
Americas	\$ 13,764	9.1%	\$ 27,183	23.1%	\$(13,419)	(49.4%)
Asia	36,290	24.0%	38,861	33.1%	(2,571)	(6.6%)
Europe	37,893	25.1%	44,910	38.2%	(7,017)	(15.6%)
Direct Marketing	56,913	37.7%	—	0.0%	56,913	—
All Other	6,259	4.1%	6,614	5.6%	(355)	(5.4%)
Total	<u>\$ 151,119</u>	100.0%	<u>\$ 117,568</u>	100.0%	<u>\$ 33,551</u>	28.5%

Net revenue increased by approximately \$33.6 million during the three months ended January 31, 2018, as compared to the same period in the prior year. This change in net revenue was primarily driven by the increase in revenue associated with the acquisition of IWCO, offset by decreased revenues from clients in the consumer electronics and consumer products industries. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the quarter ended January 31, 2018 as compared to the same period in the prior year.

During the three months ended January 31, 2018, net revenue in the Americas region decreased by approximately \$13.4 million. This decrease in net revenue was primarily driven by decreased revenues from clients in the consumer electronics and consumer products industries. Within the Asia region, the net revenue decrease of approximately \$2.6 million primarily resulted from lower revenues from programs in the consumer electronics market, partially offset by increase in revenues from a program in the computing industry. Within the Europe region, net revenue decreased by approximately \$7.0 million primarily due to lower revenues from clients in the consumer electronics and computing industries. Net revenue for All Other decreased by approximately \$0.4 million primarily due to lower revenues from clients in the consumer electronics and consumer products industries.

Cost of Revenue:

	Three Months Ended January 31, 2018	As a % of Segment Net Revenue	Three Months Ended January 31, 2017	As a % of Segment Net Revenue	\$ Change	% Change
(In thousands)						
Americas	\$ 14,330	104.1%	\$ 26,177	96.3%	\$(11,847)	(45.3%)
Asia	28,935	79.7%	32,085	82.6%	(3,150)	(9.8%)
Europe	37,792	99.7%	41,135	91.6%	(3,343)	(8.1%)
Direct Marketing	47,505	83.5%	—	0.0%	47,505	—
All Other	5,607	89.6%	6,973	105.4%	(1,366)	(19.6%)
Total	<u>\$ 134,169</u>	88.8%	<u>\$ 106,370</u>	90.5%	<u>\$ 27,799</u>	26.1%

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management and direct marketing services as well as costs for salaries and benefits, contract labor, consulting, paper for direct mailing, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the three months ended January 31, 2018 included materials procured on behalf of our supply-chain clients of \$55.0 million, as compared to \$68.0 million for the same period in the prior year, a decrease of \$13.0 million. Total cost of revenue increased by \$27.8 million for the three months ended January 31, 2018, as compared to the same period in the prior year, primarily due to the increase in cost of revenue associated with the acquisition of IWCO which included a \$7.0 million a non-cash charge related to a fair value “step-up” to work-in-process inventory which was recognized during the three month period ended January 31, 2018, partially offset by lower material and labor costs associated with lower volume from clients in the consumer electronics and consumer products industries. Gross margin percentage for the current quarter increased to 11.2% from 9.5% in the prior year quarter, primarily due to the acquisition of IWCO, partially offset by a reduction in revenues in the Americas and Europe. For the three months ended January 31, 2018, the Company’s gross margin percentages within the Americas, Asia, Europe and Direct Marketing segments were -4.1%, 20.3%, 0.3% and 16.5%, respectively, as compared to gross margin percentages within the Americas, Asia and Europe segments of 3.7%, 17.4% and 8.4%, respectively, for the same period of the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on gross margin for the quarter ended January 31, 2018.

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In the Americas, the 7.8 percentage point decrease in gross margin, from 3.7% to -4.1%, was primarily due to declines in material costs and a reduction in force, offset by a corresponding unfavorable shift in volumes from clients in the consumer electronics and consumer products industries. In Asia, the 2.9 percentage point increase in gross margin, from 17.4% to 20.3%, was primarily due to product mix despite the decline in revenues. In Europe, the 8.1 percentage point decrease in gross margin, from 8.4% to 0.3%, was attributable to an unfavorable revenue mix associated with clients in the consumer electronics market. The gross margin for All Other was 10.4% for the three months ended January 31, 2018 as compared to -5.4% for the same period of the prior year. This increase of 15.8 percentage points was due to a favorable revenue mix primarily associated with clients in the consumer products and computing industries.

Selling, General and Administrative Expenses:

	Three Months Ended January 31, 2018	As a % of Segment Net Revenue	Three Months Ended January 31, 2017	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 1,719	12.5%	\$ 2,537	9.3%	\$ (818)	(32.2%)
Asia	4,317	11.9%	4,119	10.6%	198	4.8%
Europe	3,565	9.4%	3,583	8.0%	(18)	(0.5%)
Direct Marketing	8,126	14.3%	—	—	8,126	—
All Other	1,998	31.9%	440	6.7%	1,558	354.1%
Sub-total	19,725	13.1%	10,679	9.1%	9,046	84.7%
Corporate-level activity	10,382		1,247		9,135	732.6%
Total	<u>\$ 30,107</u>	19.9%	<u>\$ 11,926</u>	10.1%	<u>\$18,181</u>	152.4%

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, marketing expenses, share-based compensation expense, transaction costs and public reporting costs. Selling, general and administrative expenses during the three months ended January 31, 2018 increased by approximately \$18.2 million compared to the three-month period ended January 31, 2017, primarily due to the additional selling, general and administrative expenses associated with the Direct Marketing segment (\$8.1 million), higher professional fees associated with the acquisition of IWCO (\$2.2 million), higher share-based compensation expense (\$6.9 million) which are recorded as part of Corporate-level-activity, as well as other general and administrative costs. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the quarter ended January 31, 2018.

Amortization of Intangible Assets:

The intangible asset amortization of \$4.1 million, during the three months ended January 31, 2018, relates to amortizable intangible assets acquired by the Company in connection with its acquisition of IWCO. Acquired intangible assets include trademarks, tradenames and customer relationships. The trademarks and tradenames intangible asset are being amortized on a straight line basis over a 3 year estimated useful life. The customer relationship intangible asset are being amortized on a double-declining basis over an estimated useful life of 15 years.

[Table of Contents](#)**Restructuring, net:**

	Three Months Ended January 31, 2018	As a % of Segment Net Revenue	Three Months Ended January 31, 2017	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ —	0.0%	\$ 189	0.7%	\$ (189)	(100.0%)
Asia	—	0.0%	345	0.9%	(345)	(100.0%)
Europe	—	0.0%	152	0.3%	(152)	(100.0%)
All Other	4	0.1%	90	1.4%	(86)	(95.6%)
Total	<u>\$ 4</u>	0.0%	<u>\$ 776</u>	0.7%	<u>\$ (772)</u>	(99.5%)

The \$0.8 million restructuring charge recorded during the three months ended January 31, 2017 primarily consisted of \$0.2 million, \$0.3 million, \$0.1 million and \$0.1 million of employee-related costs in the Americas, Asia, Europe and e-Business, respectively, related to the workforce reduction of 18 employees in our global supply chain operations. Of this amount, \$0.1 million related to contractual obligations.

Interest Income/Expense:

During the three months ended January 31, 2018 and 2017, interest expense totaled approximately \$6.6 million and \$2.1 million, respectively. The increase in interest expense is primarily due to the additional debt associated with the acquisition of IWCO.

Other Gains (Losses), net:

The Company recorded foreign exchange gains (losses) of approximately \$(1.4) million and \$29 thousand during the three months ended January 31, 2018 and 2017, respectively. For the three months ended January 31, 2018, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$(2.3) million, \$1.3 million and \$(0.7) million in Corporate, Europe and Asia, respectively. For the three months ended January 31, 2017, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$0.6 million, \$(0.5) million and \$(0.1) million in Corporate, Asia and Europe, respectively.

During the three months ended January 31, 2017, the Company recognized \$1.0 million in net gains associated with its Trading Securities.

Income Tax Expense:

During the three months ended January 31, 2018, the Company recorded income tax benefit of approximately \$77.7 million, as compared to income tax expense of \$0.7 million for the same period in the prior fiscal year. The income tax benefit in the current quarter is related to the reduction of the Company's valuation allowance associated with the IWCO acquisition of approximately \$79.9 million, partially offset by income tax expense in certain jurisdictions where the Company operates, 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.

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Results of Operations

Six months ended January 31, 2018 compared to the six months ended January 31, 2017

Net Revenue:

	Six Months Ended January 31, 2018	As a % of Total Net Revenue	Six Months Ended January 31, 2017	As a % of Total Net Revenue	\$ Change	% Change
(In thousands)						
Americas	\$ 28,603	11.3%	\$ 53,061	22.2%	\$(24,458)	(46.1%)
Asia	79,802	31.5%	81,734	34.2%	(1,932)	(2.4%)
Europe	76,283	30.1%	90,091	37.7%	(13,808)	(15.3%)
Direct Marketing	56,913	22.4%	—	0.0%	56,913	—
All Other	12,040	4.7%	14,009	5.9%	(1,969)	(14.1%)
Total	<u>\$ 253,641</u>	100.0%	<u>\$ 238,895</u>	100.0%	<u>\$ 14,746</u>	6.2%

Net revenue increased by approximately \$14.8 million during the six months ended January 31, 2018, as compared to the same period in the prior year. This change in net revenue was primarily driven by the increase in revenue associated with the acquisition of IWCO, offset by decreased revenues from clients in the consumer electronics and consumer products industries. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the quarter ended January 31, 2018 as compared to the same period in the prior year.

During the six months ended January 31, 2018, net revenue in the Americas region decreased by approximately \$24.5 million. This decrease in net revenue was primarily driven by decreased revenues from clients in the consumer electronics and consumer products industries. Within the Asia region, the net revenue decrease of approximately \$1.9 million primarily resulted from lower revenues from programs in the consumer electronics market, partially offset by increase in revenues from a program in the computing industry. Within the Europe region, net revenue decreased by approximately \$13.8 million primarily due to lower revenues from clients in the consumer electronics industry. Net revenue for All Other decreased by approximately \$2.0 million primarily due to lower revenues from clients in the consumer electronics industry.

Cost of Revenue:

	Six Months Ended January 31, 2018	As a % of Segment Net Revenue	Six Months Ended January 31, 2017	As a % of Segment Net Revenue	\$ Change	% Change
(In thousands)						
Americas	\$ 29,632	103.6%	\$ 52,965	99.8%	\$(23,333)	(44.1%)
Asia	63,960	80.1%	67,714	82.8%	(3,754)	(5.5%)
Europe	75,520	99.0%	84,392	93.7%	(8,872)	(10.5%)
Direct Marketing	47,505	83.5%	—	—	47,505	—
All Other	11,000	91.4%	13,293	94.9%	(2,293)	(17.2%)
Total	<u>\$ 227,617</u>	89.7%	<u>\$ 218,364</u>	91.4%	<u>\$ 9,253</u>	4.2%

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management and direct marketing services as well as costs for salaries and benefits, contract labor, consulting, paper for direct mailing, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the six months ended January 31, 2018 included materials procured on behalf of our supply-chain clients of \$115.6 million, as compared to \$136.9 million for the same period in the prior year, a decrease of \$21.3 million. Total cost of revenue increased by \$9.3 million for the six months ended January 31, 2018, as compared to the same period in the prior year, primarily due to lower material and labor costs associated with lower volume from clients in the consumer electronics and consumer products industries, offset by an increase in cost of revenue associated with the acquisition of IWCO. Gross margin percentage for the current quarter increased to 10.3% from 8.6% in the prior year quarter, primarily due to the acquisition of IWCO, partially offset by a reduction in revenues in the Americas and Europe. For the six months ended January 31, 2018, the Company's gross margin percentages within the Americas, Asia, Europe and Direct Marketing segments were -3.6%, 19.9%, 1.0% and 16.5%, respectively, as compared to gross margin percentages within the Americas, Asia and Europe segments of 0.2%, 17.2% and 6.3%, respectively, for the same period of the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on gross margin for the quarter ended January 31, 2018.

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In the Americas, the -3.8 percentage point decline in gross margin, from 0.2% to -3.6%, was primarily due to declines in material costs and a reduction in force, offset by a corresponding unfavorable shift in volumes from clients in the consumer electronics and consumer products industries. In Asia, the 2.7 percentage point increase in gross margin, from 17.2% to 19.9%, was primarily due to product mix despite a decline in revenues. In Europe, the 5.3 percentage point decrease in gross margin, from 6.3% to 1.0%, was attributable to an unfavorable revenue mix associated with clients in the consumer electronics market. The gross margin for All Other was 8.6% for the six months ended January 31, 2018 as compared to 5.1% for the same period of the prior year. This increase of 3.5 percentage points was due to a favorable revenue mix primarily associated with clients in the consumer products and computing industries.

Selling, General and Administrative Expenses:

	Six Months Ended January 31, 2018	As a % of Segment Net Revenue	Six Months Ended January 31, 2017	As a % of Segment Net Revenue	\$ Change	% Change
(In thousands)						
Americas	\$ 3,428	12.0%	\$ 5,186	9.8%	\$ (1,758)	(33.9%)
Asia	8,634	10.8%	9,077	11.1%	(443)	(4.9%)
Europe	7,085	9.3%	7,557	8.4%	(472)	(6.2%)
Direct Marketing	8,126	14.3%	—	—	8,126	—
All Other	3,824	31.8%	1,144	8.2%	2,680	234.3%
Sub-total	31,097	12.3%	22,964	9.6%	8,133	35.4%
Corporate-level activity	11,877		2,563		9,314	363.4%
Total	<u>\$ 42,974</u>	16.9%	<u>\$ 25,527</u>	10.7%	<u>\$17,447</u>	68.3%

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense, marketing expenses, share-based compensation expense, transaction costs and public reporting costs. Selling, general and administrative expenses during the six months ended January 31, 2018 increased by approximately \$17.4 million compared to the six month period ended January 31, 2017, primarily due to the additional selling, general and administrative expenses associated with the Direct Marketing segment (\$8.1 million), higher professional fees associated with the acquisition of IWCO (\$2.2 million), higher share-based compensation expense (\$6.9 million) which are recorded as part of Corporate-level-activity, as well as other general and administrative costs. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the quarter ended January 31, 2018.

Amortization of Intangible Assets:

The intangible asset amortization of \$4.1 million, during the six months ended January 31, 2018, relates to amortizable intangible assets acquired by the Company in connection with its acquisition of IWCO. Acquired intangible assets include trademarks, tradenames and customer relationships. The trademarks and tradenames intangible asset are being amortized on a straight line basis over a 3 year estimated useful life. The customer relationship intangible asset are being amortized on a double-declining basis over an estimated useful life of 15 years.

[Table of Contents](#)**Restructuring, net:**

	Six Months Ended January 31, 2018	As a % of Segment Net Revenue	Six Months Ended January 31, 2017	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 27	0.1%	\$ 486	0.9%	\$ (459)	(94.4%)
Asia	1	0.0%	854	1.0%	(853)	(99.9%)
Europe	2	0.0%	693	0.8%	(691)	(99.7%)
All Other	11	0.1%	117	0.8%	(106)	(90.6%)
Total	<u>\$ 41</u>	0.0%	<u>\$ 2,150</u>	0.9%	<u>\$ (2,109)</u>	(98.1%)

The \$2.2 million restructuring charge recorded during the six months ended January 31, 2017 primarily consisted of \$0.4 million, \$0.7 million, \$0.6 million and \$0.1 million of employee-related costs in the Americas, Asia, Europe and e-Business, respectively, related to the workforce reduction of 68 employees in our global supply chain. Of this amount, \$0.4 million related to contractual obligations.

Interest Income/Expense:

During the six months ended January 31, 2018 and 2017, interest income was \$0.3 million and \$0.2 million, respectively.

During the six months ended January 31, 2018 and 2017, interest expense totaled approximately \$8.7 million and \$4.1 million, respectively. The increase in interest expense primarily due to the additional debt associated with the acquisition of IWCO.

Other Gains (Losses), net:

The Company recorded foreign exchange gains (losses) of approximately \$(2.1) million and \$0.4 million during the six months ended January 31, 2018 and 2017, respectively. For the six months ended January 31, 2018, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$(2.2) million, \$1.0 million and \$(1.1) million in Corporate, Europe and Asia, respectively. For the six months ended January 31, 2017, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$1.3 million, \$(0.4) million and \$(0.4) million in Corporate, Asia and Europe, respectively.

During the six months ended January 31, 2018, the Company recognized \$2.7 million in net non-cash losses associated with its Trading Securities. During the six months ended January 31, 2018, the Company recognized \$4.6 million in net cash gains associated with its Trading Securities.

Income Tax Expense:

During the six months ended January 31, 2018, the Company recorded income tax benefit of approximately \$76.6 million. During the six months ended January 31, 2017, the Company recorded income tax expense of approximately \$1.8 million. The income tax benefit during the six months ended January 31, 2018 is related to the reduction of the Company's valuation allowance associated with the IWCO acquisition of approximately \$79.9 million partially offset by income tax expense in certain jurisdictions where the Company operates, 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 and borrowings from lending institutions. As of January 31, 2018, the Company had available cash and cash equivalents of \$106.4 million. As of January 31, 2018, the Company had approximately \$27.0 million of cash and cash equivalents held outside of the U.S. Of this amount, approximately \$2.5 million is considered permanently invested due to certain restrictions under local laws, and \$24.5 million is not subject to permanent reinvestment. Due to the Company's U.S. net operating

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loss carryforward there is no U.S. tax payable upon repatriating the undistributed earnings of foreign subsidiaries considered not subject to permanent investment. Foreign withholding taxes would range from 0% to 10% on any repatriated funds.

For the Company, earnings and profits have been calculated at each subsidiary. The Company's foreign subsidiaries are in an overall net deficit for earnings and profits purposes. As such, no adjustment has been made to U.S. taxable income in 2017 relating to this aspect of the new tax law. In future years, under the new tax law the Company will be able to repatriate its foreign earnings without incurring additional U.S. tax as a result of a 100% dividends received deduction. The Company believes that any future withholding taxes or state taxes associated with such a repatriation would be minor.

On June 30, 2014, two direct and wholly owned subsidiaries of the Company (the ModusLink Borrowers) entered into a revolving credit and security agreement (the Credit Agreement), as borrowers and guarantors, with PNC Bank and National Association, as lender and as agent, respectively. The Credit Agreement has a five (5) year term which expires on June 30, 2019. It includes a maximum credit commitment of \$50.0 million, is available for letters of credit (with a sublimit of \$5.0 million) and has a \$20.0 million uncommitted accordion feature. The actual maximum credit available under the Credit Agreement varies from time to time and is determined by calculating the applicable borrowing base, which is based upon applicable percentages of the values of eligible accounts receivable and eligible inventory minus reserves determined by the Agent (including other reserves that the Agent may establish from time to time in its permitted discretion), all as specified in the Credit Agreement. The Credit Agreement contains certain customary negative covenants, which include limitations on mergers and acquisitions, the sale of assets, liens, guarantees, investments, loans, capital expenditures, dividends, indebtedness, changes in the nature of business, transactions with affiliates, the creation of subsidiaries, changes in fiscal year and accounting practices, changes to governing documents, compliance with certain statutes, and prepayments of certain indebtedness. The Credit Agreement also contains certain customary affirmative covenants (including periodic reporting obligations) and events of default, including upon a change of control. The Credit Agreement requires compliance with certain financial covenants providing for maintenance of specified liquidity, maintenance of a minimum fixed charge coverage ratio and/or maintenance of a maximum leverage ratio following the occurrence of certain events and/or prior to taking certain actions. For greater clarity, if the undrawn availability, as more fully described in the Credit Agreement, is either equal to or less than \$10.0 million, or the aggregate principal balance of the loans plus the undrawn amount of all letters of credit in each case outstanding on any date is equal to or greater than \$30.0 million; then compliance with the minimum fixed charge coverage ratio is required. If triggered, the minimum fixed charge coverage ratio to be maintained, as of the end of each fiscal month, for the trailing period of twelve consecutive fiscal months then ended, would be not less than 1.0 to 1.0. As of January 31, 2018 and July 31, 2017, the Company did not have any balance outstanding on the PNC Bank credit facility.

On March 18, 2014, the Company entered into an indenture (the Indenture) with Wells Fargo Bank, National Association, as trustee, relating to the Company's issuance of \$100 million of 5.25% Convertible Senior Notes (the Notes). The Notes bear interest at the rate of 5.25% per year, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2014. The Notes will mature on March 1, 2019, unless earlier repurchased by the Company or converted by the holder in accordance with their terms prior to such maturity date. Holders of the Notes may convert all or any portion of their notes, in multiples of \$1,000 principal amount, at their option at any time prior to the close of business or the business day immediately preceding the maturity date. Each \$1,000 of principal of the Notes will initially be convertible into 166.2593 shares of our common stock, which is equivalent to an initial conversion price of approximately \$6.01 per share, subject to adjustment upon the occurrence of certain events, or, if the Company obtains the required consent from its stockholders, into shares of the Company's common stock, cash or a combination of cash and shares of its common stock, at the Company's election. If the Company has received stockholder approval, and it elects to settle conversions through the payment of cash or payment or delivery of a combination of cash and shares, the Company's conversion obligation will be based on the volume weighted average prices ("VWAP") of its common stock for each VWAP trading day in a 40 VWAP trading day observation period. The Notes and any of the shares of common stock issuable upon conversion have not been registered. Holders will have the right to require the Company to repurchase their Notes, at a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, upon the occurrence of certain fundamental changes, subject to certain conditions. No fundamental changes occurred during the three months ended January 31, 2018. The Company may not redeem the Notes prior to the maturity date, and no sinking fund is provided for the Notes. The Company will have the right to elect to cause the mandatory conversion of the Notes in whole, and not in part, at any time on or after March 6, 2017, if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company notifies holders of its election to mandatorily convert the Notes, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company notifies holders of its election to mandatorily convert the notes. As of January 31, 2018 and July 31, 2017, the principal amount of the Notes was \$67.6 million, for both periods. As of January 31, 2018 and July 31, 2017, the net carrying value of the Notes was \$62.1 million and \$59.8 million, respectively.

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On December 15, 2017, MLGS, a wholly owned subsidiary of the Company, entered into a Financing Agreement (the Financing Agreement), by and among the MLGS (as the initial borrower), Instant Web, LLC, a Delaware corporation and wholly owned subsidiary of IWCO (as Borrower), IWCO, and certain of IWCO's subsidiaries (together with IWCO, the Guarantors), the lenders from time to time party thereto, and Cerberus Business Finance, LLC, as collateral agent and administrative agent for the lenders. MLGS was the initial borrower under the Financing Agreement, but immediately upon the consummation of the IWCO Acquisition, as described above, Borrower became the borrower under the Financing Agreement.

The Financing Agreement provides for \$393.0 million term loan facility (the Term Loan) and a \$25.0 million revolving credit facility (collectively, the Cerberus Credit Facility). Proceeds of the Cerberus Credit Facility were used (i) to finance a portion of the IWCO Acquisition, (ii) to repay certain existing indebtedness of the Borrower and its subsidiaries, (iii) for working capital and general corporate purposes and (iv) to pay fees and expenses related to the Financing Agreement and the IWCO Acquisition. The Cerberus Credit Facility has a maturity of five years. Borrowings under the Cerberus Credit Facility bear interest, at the Borrower's option, at a Reference Rate plus 3.75% or a LIBOR Rate plus 6.5%, each as defined in the Financing Agreement. The initial interest rate under the Cerberus Credit Facility will be at the LIBOR Rate option. The Term Loan under the Cerberus Credit Facility is repayable in consecutive quarterly installments, each of which will be in an amount equal per quarter of \$1,500,000 and each such installment to be due and payable, in arrears, on the last day of each calendar quarter commencing on March 31, 2018 and ending on the earlier of (a) December 15, 2022 and (b) upon the payment in full of all obligations under the Financing Agreement and the termination of all commitments under the Financing Agreement. Further, the Term Loan would be permanently reduced pursuant to certain mandatory prepayment events including an annual "excess cash flow sweep" of 50% of the consolidated excess cash flow, with a step-down to 25% when the Leverage Ratio (as defined in the Financing Agreement) is below 3.50:1.00; provided that, in any fiscal year, any voluntary prepayments of the Term Loan shall be credited against the Borrower's "excess cash flow" prepayment obligations on a dollar-for-dollar basis for such calendar year. Borrowings under the Financing Agreement are fully guaranteed by the Guarantors and are collateralized by substantially all the assets of the Borrower and the Guarantors and a pledge of all of the issued and outstanding equity interests of each of IWCO's subsidiaries. The Financing Agreement contains certain representations, warranties, events of default, mandatory prepayment requirements, as well as certain affirmative and negative covenants customary for financing agreements of this type. These covenants include restrictions on borrowings, investments and dispositions, as well as limitations on the ability of the Borrower and the Guarantors to make certain capital expenditures and pay dividends. Upon the occurrence and during the continuation of an event of default under the Financing Agreement, the lenders under the Financing Agreement may, among other things, terminate all commitments and declare all or a portion of the loans under the Financing Agreement immediately due and payable and increase the interest rate at which loans and obligations under the Financing Agreement bear interest. During the three months ended January 31, 2018, the Company did not trigger any of these covenants. During the first quarter of fiscal year 2017, the Company adopted ASU No. 2015-03. As such, the debt issuance costs are capitalized as a reduction of the principal amount of Term Loan on the Company's balance sheet and amortized, using the effective-interest method, as additional interest expense over the term of the Term Loan. As of January 31, 2018, the Company had \$6.0 million outstanding on the revolving credit facility. As of January 31, 2018, the principal amount outstanding on the Term Loan was \$393.0 million. As of January 31, 2018, the current and long-term net carrying value of the Term Loan was \$391.7 million.

Consolidated working capital was \$70.6 million at January 31, 2018, compared with \$108.7 million at July 31, 2017. Included in working capital were cash and cash equivalents of \$106.4 million at January 31, 2018 and \$110.7 million at July 31, 2017.

Net cash provided by (used in) operating activities was \$5.4 million for the six months ended January 31, 2018, as compared to \$(17.1) million in the prior year period. The \$22.5 million change in net cash provided by operating activities as compared with the same period in the prior year was primarily due to the \$71.3 million improvement in the Company's net income associated with the tax benefit related to the acquisition of IWCO. During the six months ended January 31, 2018, non-cash items within net cash provided by operating activities included depreciation expense of \$5.6 million, amortization of intangible assets of \$4.1, amortization of deferred financing costs of \$0.4 million, accretion of debt discount of \$2.1 million, share-based compensation of \$7.4 million, non-cash gains, net, of \$12.4 million and gains on investments in affiliates of \$0.4 million. During the six months ended January 31, 2017, non-cash items within net cash provided by operating activities included depreciation expense of \$4.1 million, amortization of deferred financing costs of \$0.3 million, accretion of debt discount of \$1.9 million, share-based compensation of \$0.4 million, non-cash gains, net, of \$0.5 million and gains on investments in affiliates of \$0.9 million.

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

Investing activities provided (used) cash of \$(443.8) million and \$3.4 million during the six months ended January 31, 2018 and 2017, respectively. The \$443.8 million of cash used in investing activities during the six months ended January 31, 2018 was primarily comprised of \$469.2 in payments associated with the acquisition of IWCO, \$9.3 million in capital expenditures, offset by \$20.6 million in proceeds associated with the sale of property and equipment, \$13.8 in proceeds from the sale of Trading Securities and \$0.4 million in proceeds from investments in affiliates. The \$3.4 million of cash provided in investing activities during the six months ended January 31, 2017 was comprised of \$5.8 million in proceeds from the sale of Trading Securities and \$0.9 million in proceeds from investments in affiliates, offset by \$3.3 million in capital expenditures.

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Financing activities provided cash of \$432.6 million during the six months ended January 31, 2017, which primarily related to the \$393.0 million in net proceeds from the Term Loan associated with the IWCO Acquisition, \$35.0 million in in proceeds associated with the issuance of convertible preferred stock and \$6.0 million in proceeds from the revolving line of credit. Financing activities used cash of \$1.9 million during the six months ended January 31, 2017, which primarily related to the purchase of the Company's Convertible Notes of \$1.8 million and payments on capital lease obligations of \$0.1 million.

The Company believes it has access to adequate resources to meet its needs for normal operating costs, capital expenditures, mandatory debt redemptions and working capital for its existing business for at least the next twelve months. These resources include cash and cash equivalents, the PNC Credit Agreement, the revolving credit facility noted above and cash, if any, provided by operating activities. At January 31, 2018 and July 31, 2017, the Company had cash and cash equivalents and Trading Securities of \$106.6 million and \$122.6 million, respectively. At January 31, 2018 and July 31, 2017, the Company had a readily available borrowing capacity under its PNC Bank Credit Facility of \$6.8 million and \$16.0 million, respectively. At January 31, 2018, the Company had a readily available borrowing capacity under its Cerberus revolving Credit Facility of \$19.0.

In order to obtain funding for strategic initiatives, which may include capital expenditures or acquisitions, we may seek to raise additional funds through divestitures, public or private equity offerings, debt financings, or other means. In addition, as part of our strategic initiatives, our management may seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise if we believe that it is in our best interests. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

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

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

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, 2017. The Company's contractual obligations and other commercial commitments did not change materially between July 31, 2017 and January 31, 2018. The Company's gross liability for unrecognized tax benefits and related accrued interest was approximately \$1.8 million as of January 31, 2018. The Company is unable to reasonably estimate the amount or timing of payments for the liability.

From time to time, the Company agrees to indemnify its clients in the ordinary course of business. Typically, the Company agrees to indemnify its clients for losses caused by the Company. As of January 31, 2018, the Company had no recorded liabilities with respect to these arrangements.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, inventory, restructuring, share-based compensation expense, long-lived assets, investments, and income taxes. Of the accounting estimates we routinely make relating to our critical accounting policies, those estimates made in the process of: determining the valuation of inventory and related reserves; determining future lease assumptions related to restructured facility lease obligations; measuring share-based compensation expense; preparing investment valuations; and establishing income tax valuation allowances and liabilities are the estimates most likely to have a material impact on our financial position and results of 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.

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During the six months ended January 31, 2018, 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, 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk

As of January 31, 2018 and July 31, 2017, the Company did not have an outstanding balance on the PNC Bank credit facility. As of January 31, 2018, the Company had \$6.0 million outstanding on the Cerberus revolving credit facility. As of January 31, 2018, the principal amount outstanding on the Term Loan was \$393.0 million. Based on outstanding borrowings as of January 31, 2018, the effect of a 100 basis point change in current interest rates on annualized interest expense would be approximately \$4.0 million.

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

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

Foreign Currency Risk

The Company has operations in various countries and currencies throughout the world and its operating results and financial position are subject to exposure from fluctuations in foreign currency exchange rates. From time to time, the Company has used derivative financial instruments on a limited basis, principally foreign currency exchange rate contracts, to minimize the transaction exposure that results from such fluctuations. As of January 31, 2018 and July 31, 2017, there were no foreign currency forward contracts outstanding.

Revenues from our foreign operating segments accounted for approximately 49.1% and 71.3% of total revenues during the three months ended January 31, 2018 and 2017, respectively. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.

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

The conversion of the foreign subsidiaries’ financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income (loss). For the three months ended January 31, 2018 and 2017, we recorded a foreign currency translation gain (loss) of approximately \$3.6 million and \$(0.7) million, respectively, which is recorded within

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accumulated other comprehensive income in stockholders' equity in our condensed consolidated balance sheet. In addition, certain of our subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the relative exchange rates between the currencies result in remeasurement gains or losses at each balance sheet date and transaction gains or losses upon settlement. For the three months ended January 31, 2018 and 2017, we recorded net realized and unrealized foreign currency transaction and remeasurement gains (losses) of approximately \$(1.4) million and \$29 thousand, respectively, which are recorded in "Other gains (losses), net" in our condensed consolidated statements of operations.

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer ("Principal Executive Officer") and Chief Financial Officer ("Principal Financial Officer"), of the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. 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 upon that evaluation, management, including the Chief Executive Officer and Chief Financial Officer, concluded that, due to the material weakness described below as well as a material weakness in internal controls over financial reporting as reported in the Company's 10-K for the period ended July 31, 2017, as filed with the SEC on October 16, 2017, our disclosure controls and procedures were not effective as of January 31, 2018.

In connection with the preparation of the Form 10-Q for the three and six months ended January 31, 2018, the Company determined that, due to certain communication and monitoring errors in connection with the preparation and review of our income tax provision that was specific to our acquisition of IWCO Direct Holdings, Inc. the tax provision for the Company would have been incorrect and would have resulted in the income tax benefit being materially overstated by \$6.9 million for the current quarter ended January 31, 2018. Specifically, we did not design effective controls related to the review of the fair value adjustments used in the calculation of our income tax provision and failed to recognize the tax expense associated with an estimate for non-routine transactions. This error was detected prior to the issuance of our Form 10-Q for the quarter ended January 31, 2018.

As a result of the item described above, we corrected our consolidated financial statements for the quarter ended January 31, 2018. The errors did not impact any prior periods.

These clerical errors resulted from the deficiency referenced in the above paragraph. We have concluded that such deficiency constituted a material weakness in the Company's internal controls. Management is in the process of remediating the internal controls weakness related to income tax. Nevertheless, the Company may continue to report the above material weakness while sufficient evaluation of newly established procedures and controls occurs.

Notwithstanding the material weakness, management has concluded that the consolidated financial statements included in this Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented.

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Remediation of the Material Weakness in Internal Control Over Financial Reporting

Management has been actively engaged in the planning for, and implementation of, remediation efforts to address the material weakness in the e-Business segment throughout the fiscal year 2017 and 2018. These remediation efforts, outlined below, are intended both to address the identified material weakness and to enhance the Company's overall financial control environment.

- Management has enhanced the formality and rigor of the reconciliation procedures and the evaluation of certain accounts and transactions, controls, including access controls. This deficiency was not effectively remediated during the three months ended January 31, 2018 primarily due to the number of access rights, segregation of duties and review controls not sufficiently documented for a sufficient period of time, primarily within the e-Business segment.
- Management has enhanced the design and precision level of existing monitoring controls to provide additional controls supporting the reporting process.
- A significant amount of remediation was performed in implementing additional policies, improved processes and documented procedures relating to our financial statement close processes and procedures within the e-Business and Americas segments.
- We will continue to engage a nationally recognized accounting firm to provide assistance and guidance in designing, implementing and testing the Company's internal controls during the year.

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. The material weakness in our internal control over financial reporting will not be considered remediated until the remediated controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We are working to have the material weakness remediated as soon as possible and significant progress has been made to date. We are committed to continuing to improve our internal control processes and will continue to diligently and vigorously review our financial reporting controls and procedures. As management continues to evaluate and work to improve internal control over financial reporting, the Company may decide to take additional measures to address control deficiencies or decide to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

Changes in Internal Control over Financial Reporting

On December 15, 2017, the Company acquired IWCO Direct as more fully described in Note 8. During the initial transition period following the acquisition, we enhanced our internal controls to ensure all financial information related to the acquisition was properly reflected in our consolidated financial statements.

Except as described in the preceding paragraph, there have been no changes in our internal controls over financial reporting (as defined in Rule 13(a)-15(f) or Rule 15d-15(f) of the Exchange Act) during the three months ended January 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 5. Other Information:

As previously reported by Steel Connect, Inc. (the "Company") on October 5, 2017, the Company received a letter from The NASDAQ Stock Market LLC (the "Nasdaq") notifying the Company that it was not in compliance with Nasdaq Listing Rule 5605(c)(2) (the "Rule"), which requires that an audit committee consist of at least three members, each of whom is independent. As previously reported, this deficiency was caused by the September 29, 2017, passing of Anthony Bergamo, who served as an independent director on the Company's Board of Directors (the "Board") and as the chair of the Board's audit committee (the "Audit Committee"). Prior to his passing, Mr. Bergamo also served on the Board's Human Resources and Compensation Committee (the "Compensation Committee") and Nominating and Corporate Governance Committee (the "Governance Committee").

On March 6, 2018, the Board appointed Philip E. Lengyel to the Audit Committee to fill the vacancy created by Mr. Bergamo's passing. Mr. Lengyel has served on the Board since May 2014 and also serves on the Compensation Committee and Governance Committee. As a result of Mr. Lengyel's appointment to the Audit Committee, the Audit Committee is now composed of three independent directors.

On March 8, 2018, the Company notified the Nasdaq concerning Mr. Lengyel's appointment to the Audit Committee. On March 13, 2018, the Company received a letter from the Nasdaq notifying the Company that, based on the information the Company provided to the Nasdaq regarding the appointment of Mr. Lengyel to the Audit Committee, the Nasdaq has determined that the Company has regained compliance with the Rule and this matter is now closed.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

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Item 1A. Risk Factors.

Except as provided below, there have not been any material changes from the risk factors previously disclosed in Part I, “Item 1A, Risk Factors” in our Annual Report on Form 10-K for the year ended July 31, 2017. In addition to the other information set forth in this report, you should carefully consider the risks and uncertainties discussed in Part I, “Item 1A. Risk Factors” discussed in our Annual Report, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K and this Quarterly Report on Form 10-Q are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be not material also may materially and adversely affect our business, financial condition and/or operating results.

Risks Related to Acquisitions

We may not be able to achieve the anticipated synergies and benefits from business acquisitions, including our recent acquisition of IWCO Direct Holdings Inc.

Part of our business strategy is to acquire businesses that we believe can complement our current business activities, both financially and strategically. On December 15, 2017, we acquired IWCO Direct Holdings Inc. and its subsidiaries. Acquisitions involve many complexities, including, but not limited to, risks associated with the acquired business’ past activities, loss of customers, regulatory changes that are not anticipated, difficulties in integrating personnel and human resource programs, integrating ERP systems and other infrastructures under Company control, unanticipated expenses and liabilities, and the impact on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002. There is no guarantee that our acquisitions will increase the profitability and cash flow of the Company, and our efforts could cause unforeseen complexities and additional cash outflows, including financial losses. As a result, the realization of anticipated synergies or benefits from acquisitions may be delayed or substantially reduced.

Risks Related to our Indebtedness

On December 15, 2017, MLGS, a wholly owned subsidiary of the Company, entered into a Financing Agreement by and among the MLGS (as the initial borrower), Instant Web, LLC, a Delaware corporation and wholly owned subsidiary of IWCO (as Borrower), IWCO, and certain of IWCO’s subsidiaries (together with IWCO, the Guarantors), the lenders from time to time party thereto, and Cerberus Business Finance, LLC, as collateral agent and administrative agent for the lenders. MLGS was the initial borrower under the Financing Agreement, but immediately upon the consummation of the IWCO Acquisition, Borrower became the borrower under the Financing Agreement. The Financing Agreement provides for \$393.0 million term loan facility and a \$25.0 million revolving credit facility (collectively, the Cerberus Credit Facility). Proceeds of the Cerberus Credit Facility were used (i) to finance a portion of the IWCO Acquisition, (ii) to repay certain existing indebtedness of the Borrower and its subsidiaries, (iii) for working capital and general corporate purposes and (iv) to pay fees and expenses related to the Financing Agreement and the IWCO Acquisition. The Cerberus Credit Facility has a maturity of five years.

On June 30, 2014, two direct and wholly owned subsidiaries of the Company (the ModusLink Borrowers) entered into a revolving credit and security agreement (the Credit Agreement), as borrowers and guarantors, with PNC Bank and National Association, as lender and as agent, respectively. The Credit Agreement has a five (5) year term which expires on June 30, 2019. It includes a maximum credit commitment of \$50.0 million, is available for letters of credit (with a sublimit of \$5.0 million) and has a \$20.0 million uncommitted accordion feature.

As of January 31, 2018 and July 31, 2017, the Company did not have an outstanding balance on the PNC Bank credit facility. As of January 31, 2018, the Company had \$6.0 million outstanding on the Cerberus revolving credit facility. As of January 31, 2018, the principal amount outstanding on the Term Loan was \$393.0 million.

Our indebtedness could restrict our operations and make us more vulnerable to adverse economic conditions.

Our indebtedness could have important consequences for us and our stockholders. For example, our Financing Agreement and our Credit Agreement (together, the “Debt Agreements”) require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, and acquisitions, and for other general corporate purposes. In addition, our indebtedness could:

- increase our vulnerability to adverse economic and competitive pressures in our industry;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry; and
- limit our ability to borrow additional funds on terms that are acceptable to us or at all.

The Debt Agreements governing our indebtedness contain restrictive covenants that will restrict our operational flexibility and require that we maintain specified financial ratios. If we cannot comply with these covenants, we may be in default under the Debt Agreements.

The Debt Agreements governing our indebtedness contain affirmative and negative covenants, including with regard to specified financial ratios, that limit and restrict our operations and may hamper our ability to engage in activities that may be in our long-term best interests. Events beyond our control could affect our ability to meet these and other covenants under the Debt Agreements. Our failure to comply with our covenants and other obligations under the Debt Agreements may result in an event of default thereunder. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness (together with accrued interest and fees), or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. This could have serious consequences to our financial condition, operating results, and business, and could cause us to become insolvent or enter bankruptcy proceedings, and shareholders may lose all or a portion of their investment because of the priority of the claims of our creditors on our assets.

If we are unable to generate or borrow sufficient cash to make payments on our indebtedness, our financial condition would be materially harmed, our business could fail, and shareholders may lose all of their investment.

Our ability to make scheduled payments on or to refinance our obligations will depend on our financial and operating performance, which will be affected by economic, financial, competitive, business, and other factors, some of which are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations to service our indebtedness or to fund our other liquidity needs. If we are unable to meet our debt obligations or fund our other liquidity needs, we may need to restructure or refinance all or a portion of our indebtedness on or before maturity or sell certain of our assets. We cannot assure you that we will be able to restructure or refinance any of our indebtedness on commercially reasonable terms, if at all, which could cause us to default on our debt obligations and impair our liquidity. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

Increases in interest rates could adversely affect our results from operations and financial condition.

An increase in prevailing interest rates would have an effect on the interest rates charged on our variable rate debt, which rise and fall upon changes in interest rates. If prevailing interest rates or other factors result in higher interest rates, the increased interest expense would adversely affect our cash flow and our ability to service our indebtedness.

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

None.

Item 3. Default Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Note applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
2.1	<u>Agreement and Plan of Merger, dated December 15, 2017, by and among ModusLink Global Solutions, Inc., MLGS Merger Company, Inc., IWCO Direct Holdings Inc., CSC Shareholder Services, LLC (solely in its capacity as representative), and the stockholders of IWCO Direct Holdings Inc. is incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on December 19, 2017 (File No. 001-35319). Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby agrees to furnish supplementary copies of any of the omitted schedules or exhibits upon request by the Securities and Exchange Commission.</u>
3.1	<u>Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock of ModusLink Global Solutions, Inc. filed with the Secretary of State of the State of Delaware on December 15, 2017, is incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on December 19, 2017 (File No. 001-35319).</u>
3.2	<u>Certificate of Designation of Rights, Preferences and Privileges of Series D Junior Participating Preferred Stock filed with the Secretary of State of the State of Delaware on January 19, 2018, is incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on January 19, 2018 (File No. 001-35319).</u>
3.3	<u>Certificate of Ownership and Merger filed with the Secretary of State of the State of Delaware on February 20, 2018, is incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 26, 2018 (File No. 001-35319).</u>
4.1	<u>Tax Benefits Preservation Plan, dated as of January 19, 2018, by and between ModusLink Global Solutions, Inc. and American Stock Transfer & Trust Company, LLC, as rights agent is incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on January 19, 2018 (File No. 001-35319).</u>
10.1*	<u>Sale and Purchase Agreement, dated October 5, 2017, between ModusLink Pte. Ltd. and Far East Group Limited.</u>
10.2	<u>Financing Agreement dated as of December 15, 2017, by and among IWCO Direct Holdings Inc., MLGS Merger Company, Inc., Instant Web, LLC, certain subsidiaries of IWCO Direct Holdings Inc. identified on the signature pages thereto, the lenders from time to time party hereto, and Cerberus Business Finance, LLC, as collateral agent and administrative agent for the lenders, is incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 19, 2017 (File No. 001-35319).</u>
10.3	<u>Preferred Stock Purchase Agreement dated as of December 15, 2017, by and between ModusLink Global Solutions, Inc. and SPH Group Holdings LLC is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 19, 2017 (File No. 001-35319).</u>
31.1*	<u>Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of the Principal Financial Officer and Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1±	<u>Certification of the Principal Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2±	<u>Certification of the Principal Financial Officer and Principal Accounting Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

101* Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Unaudited Condensed Consolidated Balance Sheets as of January 31, 2018 and July 31, 2017, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and six months ended January 31, 2018 and 2017, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended January 31, 2018 and 2017 (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended January 31, 2018 and 2017 and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

* Filed herewith.

± Furnished herewith.

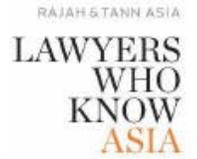
SIGNATURE

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.

STEEL CONNECT, INC.

Date: March 15, 2018

By: _____ /S/ LOUIS J. BELARDI
Louis J. Belardi
Chief Financial Officer
(Duly Authorized Officer, Principal Financial and Accounting Officer)



**AGREEMENT RELATING TO THE
SALE AND PURCHASE OF**

51 UBI AVENUE 3 SINGAPORE 408858

BETWEEN

MODUSLINK PTE. LTD.
(as Vendor)

AND

FAR EAST GROUP LIMITED
(as Purchaser)

DATED THE 5TH DAY OF OCTOBER 2017

RAJAH & TANN | *Singapore*

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SALE AND PURCHASE AGREEMENT

THIS AGREEMENT is made on the 5th day of October 2017.

BETWEEN:

- (1) **MODUSLINK PTE. LTD.** (UEN: 198903169H), a company established in the Republic of Singapore with its registered address at 8 Marina Boulevard #05-02 Marina Bay Financial Centre Singapore 018981 (the “**Vendor**”); and
- (2) **FAR EAST GROUP LIMITED** (UEN: 196400096C), a company established in the Republic of Singapore with its registered address at 112 Lavender Street #04-00 Far East Refrigeration Building Singapore 338728 (the “**Purchaser**”).

WHEREAS:

- (A) The Vendor is the lessee of the Property (as defined below), upon the terms and subject to the conditions set out in the HDB Lease (as defined below).
- (B) The Vendor has agreed to sell and the Purchaser has agreed to purchase the Property and the Plant and Equipment (defined below) upon the terms and subject to the conditions of this Agreement.

NOW IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement, unless the context requires otherwise:

“**Authorities**” has the meaning ascribed to it in Clause 8.2(a).

“**Building**” means the building(s)/structure(s) erected on the Property.

“**Building Guarantees and Warranties**” shall mean the building guarantees and warranties relating to the Property as set out in **Appendix 2**.

“**Building Maintenance Contracts**” shall mean the building facility maintenance contracts relating to the Property as set out in **Appendix 4**.

“**Business Day**” means a day (other than a Saturday, Sunday or any gazetted public holiday in Singapore) on which commercial banks are open for business in Singapore.

“**Completion**” means the completion of the sale and purchase of the Property under the terms of this Agreement.

“**Completion Date**” means the date scheduled for Completion under Clause 10.1.

“**Confidential Information**” means all communications between the Parties or any of them relating to the subject matter of this Agreement and any information which is proprietary and/or confidential (either marked or indicated to be confidential or by its nature intended to be confidential) to any person including but not limited to the terms and conditions of this Agreement, information relating to any of its assets, affairs, dealings, organisation, customers, suppliers, distributors, officers, employees, business, finances, operations, and any of the trade secrets or confidential operations, processes or inventions carried on or used by the Vendor.

“**CVY Account**” means the Vendor’s Solicitor’s conveyancing account opened under the Conveyancing and Law of Property (Conveyancing) Rules 2011 as promulgated under the Conveyancing and Law of Property Act (Cap. 61).

“**Encumbrance**” means a caveat, mortgage, charge, pledge, lien, security interest or encumbrance registered against the Property at the Singapore Land Authority and “**Encumbrances**” shall be construed accordingly.

“**GST**” means the goods and services tax (which includes any imposition, duty or levy) chargeable under the Goods and Services Tax Act, (Cap. 117A) or any statutory modification or re-enactment.

“**Guarantees and Warranties Assignment**” shall have the meaning ascribed to it in Clause 9(b).

“**HDB**” means Housing and Development Board, a body corporate incorporated under the Housing and Development Act, Chapter 129 of Singapore and its successors.

“**HDB Application**” has the meaning ascribed to it in Clause 8.1(b).

“**HDB Approvals**” means, collectively:

(i) the HDB Sale Approval; and

(ii) the approval of HDB to the partial leaseback of the Property on Completion by the Vendor (as lessee) from the Purchaser (as landlord) in respect of the LA Premises.

“**HDB Lease**” means the instrument of lease in respect of the Property issued by HDB and registered at the Singapore Land Authority as Lease I/000125L and includes the lease as varied, amended, modified or supplemented from time to time, and any document which varies, amends, modifies or supplements the same.

“**HDB Lease Term**” means the leasehold term of 30+30 years commencing from 1 January 1990 (subject to fulfilment of the terms under the HDB Lease).

“**HDB Sale Approval**” means the approval of HDB to the sale of the Property by the Vendor to the Purchaser referred to in Clause 8.1(a).

“**LA Premises**” means the entire 3rd floor of the Building of approximately 75,000 square feet (subject to final survey).

“**LA Term**” means the duration of the lease of the LA Premises commencing from the date immediately after actual Completion Date to and including 31 December 2019.

“**Lease Agreement**” means the lease agreement in such agreed form and such agreed terms and conditions relating to the LA Premises to be entered into between the Vendor (as lessee) and the Purchaser (as landlord).

“**Long Stop Date**” means 28 February 2018 or such other date as may be mutually agreed to between the Parties.

“**Memorandum of Understanding**” means the Vendor’s memorandum of understanding dated 7 August 2017 and accepted by Purchaser on 10 August 2017.

“**Parties**” means the Vendor and the Purchaser and their respective successors and permitted assignees, and “**Party**” means either of them.

“**Plant and Equipment**” means all plant, machinery and equipment situated at the Property and set out in **Appendix 1**.

“**Property**” means the whole of Lot 4406A of Mukim 23 together with the Building erected thereon, held under Certificate (SUB) Volume 458 Folio 196, bearing the address 51 Ubi Avenue 3 Singapore 408858.

“**Proposed Use Approvals**” has the meaning ascribed to it in Clause 8.2(a).

“**Purchaser’s Solicitors**” means **Fortis Law Corporation** of 24 Raffles Place #29-05/06 Clifford Centre Singapore 048621.

“**Purchase Price**” has the meaning ascribed to it in Clause 4.1.

“**Repair Date**” has the meaning ascribed to it in Clause 12(c).

“**SGX-ST**” means the Singapore Exchange Securities Trading Limited.

“**Singapore Dollar(s)**” and the sign “**S\$**” mean the lawful currency of the Republic of Singapore.

“**Vendor’s Solicitors**” means **Rajah & Tann Singapore LLP** of 9 Battery Road #25-01 Singapore 049910.

1.2 Interpretation

- (a) References to “**Recitals**”, “**Clauses**” and “**Schedules**” are to recitals and clauses of, and schedules to this Agreement and references to this “**Agreement**” shall mean this Agreement and the Schedules hereto.
- (b) The headings in this Agreement are for convenience only and shall not affect the interpretation hereof.
- (c) Unless the context otherwise requires, references to the singular number shall include references to the plural number and vice versa, references to natural persons shall include bodies corporate, and the use of any gender shall include all genders.
- (d) References to any agreement or document including this Agreement shall include such agreement or document as amended, modified, varied or supplemented from time to time.
- (e) Any reference to a statutory provision shall include such provision and any regulations made in pursuance thereof as from time to time modified or reenacted whether before or after the date of this Agreement so far as such modification or reenactment applies or is capable of applying to any transactions entered into prior to the date of this Agreement and (so far as liability thereunder may exist or can arise) shall include also any past statutory provisions or regulations (as from time to time modified or reenacted) which such provisions or regulations have directly or indirectly replaced.
- (f) References to a “**person**” shall be construed so as to include any individual, firm, company, corporation or other body corporate, government, state or agency of a state or any joint venture, association, partnership, works council or employee representative body (whether or not having separate legal personality).
- (g) References to times of the day and days of the year are to time and dates in Singapore unless otherwise stated.
- (h) References to any Singapore legal term for any action, remedy, method or judicial proceeding, legal document, legal status, court, official, or any legal concept or thing shall in respect of any jurisdiction other than Singapore be deemed to include what most nearly approximates in that jurisdiction to the Singapore legal term.
- (i) The words “**written**” and “**in writing**” include any means of visible reproduction.

2. CONDITIONS PRECEDENT

2.1 Conditions

The sale and purchase of the Property is conditional upon:

- (a) the Purchaser having completed the due diligence on the Property and being satisfied with the results of the same;
- (b) any requisite approvals, consents, authorisations, clearances, orders, waivers and alike, including but not limited to, the HDB Approvals, having been granted by HDB;
- (c) any requisite approvals, consents, authorisations, clearances, orders, waivers and alike, by any third party, governmental or regulatory body or relevant competent authority in relation to the transactions contemplated under this Agreement;
- (d) the Purchaser obtaining the letter of confirmation / waiver from SGX-ST for compliance matters relating to the sale and purchase of the Property;
- (e) the Vendor obtaining the approval of (i) its shareholder, and (ii) its board of directors; and
- (f) the Purchaser obtaining the approval of (i) its shareholders, and (ii) its board of directors.

2.2 Effect of Non-Fulfilment of Conditions

- (a) The Vendor and the Purchaser shall respectively procure the fulfilment of the condition specified in Clauses 2.1(b) and 2.1(c) and the compliance of all terms and conditions as may be imposed by HDB in granting its consent to the sale to the Purchaser.
- (b) The Vendor shall procure the fulfilment of the condition specified in Clause 2.1(e).
- (c) The Purchaser shall procure the fulfilment of the conditions specified in Clauses 2.1(a), 2.1(d) and 2.1(f).

If any of the conditions in Clause 2.1 is not fulfilled (or not waived by the Vendor or the Purchaser) by the Long Stop Date, either the Vendor or the Purchaser shall have the right to rescind this Agreement by giving written notice thereof to the other Party. On rescission, unless solely due to the Purchaser's wilful act or default which the Vendor shall not be obliged to refund any moneys paid by the Purchaser, the Vendor shall, within seven (7) Business Days, refund all moneys paid by the Purchaser to the Vendor pursuant to this Agreement and the Memorandum of Understanding, including the Initial Payment (as defined below) and/or the Deposit (as defined below) and GST thereon, without any interest or compensation whatsoever. In any case, the Purchaser shall immediately return to the Vendor all title documents and at the Purchaser's cost withdraw any caveats and cancel any entries relating to the Property in the Singapore Land Authority. Each Party shall bear its own solicitors' costs in the matter and neither shall have any further claim or demand against the other for damages, costs or otherwise.

3. SALE AND PURCHASE OF THE PROPERTY

- (a) The Vendor shall sell the Property and the Plant and Equipment and the Purchaser shall purchase the Property and the Plant and Equipment upon the terms and subject to the conditions of this Agreement.
- (b) The sale and purchase of the Property shall be subject to the terms and conditions set out in this Agreement and the general conditions of sale contained in The Law Society

of Singapore's Conditions of Sale 2012 ("**Conditions of Sale**") insofar as they are applicable to a sale by private treaty and are not varied by or inconsistent with any of the terms and conditions herein and insofar as the Conditions of Sale and the terms and conditions of this Agreement are not contrary or in conflict with (i) the Conveyancing & Law of Property (Conveyancing) Rules 2011 as promulgated under the Conveyancing & Law of Property Act (Cap. 61) ("**Conveyancing Rules**"); and (ii) the Singapore Academy of Law (Conveyancing Money) Rules 2011 as promulgated under the Singapore Academy of Law Act (Cap. 294A) ("**SAL (Conveyancing Money) Rules**") (if applicable).

- (c) Where the terms and conditions of this Agreement are in conflict with the Conditions of Sale, the former shall prevail. Where the terms and conditions of this Agreement are in conflict with the Conveyancing Rules and/or the SAL (Conveyancing Money) Rules, the Conveyancing Rules and the SAL (Conveyancing Money) Rules shall prevail.

4. PURCHASE PRICE

4.1 Purchase Price

The consideration ("**Purchase Price**") for the purchase of the Property together with the Plant and Equipment shall be Singapore Dollars Twenty Two Million and Five Hundred Thousand Only (S\$22,500,000.00) exclusive of GST which is payable by the Purchaser as set out in Clause 4.2.

4.2 Instalments

The Purchaser shall pay the Purchase Price in the following manner:

- (a) on or before the date of this Agreement:
- (i) a sum of Singapore Dollars Two Hundred and Twenty Five Thousand Only (S\$225,000) being 1% of the Purchase Price and a sum of Singapore Dollars Fifteen Thousand Seven Hundred and Fifty Only (S\$15,750) being GST thereon, to the Vendor upon the execution of the Memorandum of Understanding. The said sum of S\$225,000 shall be referred to as the "**Initial Payment**".
 - (ii) a sum of Singapore Dollars Two Million and Twenty Five Thousand Only (S\$2,025,000) being 9% of the Purchase Price and a sum of Singapore Dollars One Hundred and Forty One Thousand and Seven Hundred and Fifty Only (S\$141,750) being GST thereon, to the Vendor's Solicitors upon execution of this Agreement. The said sums of S\$2,025,000 and S\$141,750 shall be paid by cashier's orders made in favour of "**RAJAH & TANN SINGAPORE LLP—CVY**" and shall be held by the Vendor's Solicitors as stakeholders pending Completion. Both the said sums of S\$225,000 and S\$2,025,000 shall be referred to as the "**Deposit**".
- (b) on Completion, the balance of the Purchase Price and GST on the balance of the Purchase Price and any GST remaining unpaid, together with release of the sums S\$2,025,000 and S\$141,750, to the Vendor by way of cashier's order.

4.3 Conveyancing Rules and SAL Conveyancing Money Rules

All payments under this Agreement shall be governed by:

- (a) the Conveyancing Rules, as defined in Clause 3(b); and
- (b) the SAL (Conveyancing Money) Rules, as defined in Clause 3(b) (if applicable).

Where the terms and conditions of this Agreement are in conflict with the Conveyancing Rules and/or the SAL (Conveyancing Money) Rules, this Agreement shall prevail.

4.4 CVY Account

The Purchaser and Vendor shall procure their respective solicitors to issue all necessary instructions in relation to the CVY Account as may be required to comply with the respective rights and obligations of the Purchaser and Vendor under the terms of this Agreement.

5. TITLE

5.1 Encumbrances

Subject to Clause 5.2, the title to the Property shall be in order and free from Encumbrances on Completion. Save for the original Certificate (SUB) Volume 458 Folio 196 relating to the Property which shall be produced on or before Completion, the Purchaser shall not require the delivery or production of any title deeds not in the Vendor's possession nor shall the Purchaser make any requisition or objection whatsoever in relation thereto. The inability of the Vendor to answer any query, requisition or objection or any delay in answering the same shall not entitle the Purchaser to refuse or delay completion.

5.2 HDB Lease

The Property is sold subject to all easements, party wall rights, incidents of tenure, restrictive and other covenants, rights and conditions affecting the Property and the terms and conditions of the HDB Lease which have been disclosed to the Purchaser.

5.3 Assignment/Transfer

A draft instrument of transfer of the Property shall be delivered to the Vendor's Solicitors for approval within fourteen (14) Business Days from this Agreement, and an engrossment thereof in the form approved by the Vendor's Solicitors shall be delivered to the Vendor's Solicitors at least fourteen (14) Business Days before Completion Date and such instrument to be prepared by and at the sole expense of the Purchaser.

6. LEASE AGREEMENT

- (a) The Purchaser shall, on Completion, lease the LA Premises to the Vendor for the duration of the LA Term, on terms and conditions as agreed by the Parties under the Lease Agreement.
- (b) The Parties shall execute the Lease Agreement on Completion.

7. LEGAL REQUISITIONS

7.1 Unsatisfactory Reply

The sale and purchase is subject to the Purchaser or its solicitors receiving satisfactory replies to the Legal requisitions relating to the Property. In the event that the Purchaser or its solicitors shall receive any unsatisfactory reply to the Legal requisitions relating to the Property, the Purchaser may rescind this Agreement by giving to the Vendor's Solicitors written notice within five (5) days from the Purchaser or the Purchaser's Solicitors' receipt of the unsatisfactory reply. Upon the Vendor's Solicitors' receipt of such notice, this Agreement shall become null and void and of no further effect whatsoever, and the Vendor shall, within seven (7) Business Days, refund all moneys paid by the Purchaser to the Vendor pursuant to this Agreement and the Memorandum of Understanding, including the Initial Payment and/or the Deposit and GST thereon, without any interest or compensation whatsoever. On rescission, the Purchaser shall immediately return to the Vendor all title documents and at the Purchaser's cost withdraw any

caveats and cancel any entries relating to the Property in the Singapore Land Authority. Each Party shall bear its own solicitors' costs in the matter and neither shall have any further claim or demand against the other for damages, costs or otherwise. An unsatisfactory reply shall mean only the following:

- (a) any reply which discloses that any part of the Building is affected by any road, backlane or drainage proposal or government gazette notification or any other proposed scheme;
- (b) without prejudice to Clause 7.1(a) above, any reply which discloses that any part of the Property is affected by any notice which has not been complied with by the Vendor or which is incapable of being rectified, discharged or complied with by the Vendor or which the Vendor, after the Purchaser's written notification of such notice or order affecting the Property, fails to rectify, discharge or comply with within reasonable time from the Vendor's receipt of such written notification from the Purchaser and in any event prior to Completion, Provided that all agreed technical issues relating to the Property raised by the Purchaser to the Vendor on or before the date of this Agreement shall be rectified by the Vendor at the Vendor's cost prior to Completion; and
- (c) any reply from the Land Transport Authority (Rapid Transit Systems) indicating that the Building is affected by any of the matters stated in the said authority's reply or which indicates that any part of the Property is acquired or will be acquired by the Competent Authority.

"**Legal requisitions**" shall mean the legal requisitions sent to (i) Building and Construction Authority, (ii) Inland Revenue Authority of Singapore, (iii) Land Transport Authority (Rapid Transit Systems), (iv) Land Transport Authority (Street Works), (v) National Environment Agency, Central Building Planning Unit, (vi) National Environment Agency, Environment Health Department, (vii) Public Utilities Board, Water Reclamation (Network) Department and (viii) Urban Redevelopment Authority, and shall include Road Line Plans, and Drainage Interpretation Plans.

7.2 Satisfactory Reply

For the avoidance of doubt:

- (a) any objection or requisition in respect of a reply which is not made at least twenty-three (23) Business Days before the Completion Date, shall be deemed a satisfactory reply (time in this regard to be of the essence); and
- (b) a reply shall be deemed to be a satisfactory reply in any of the following cases:
 - (i) it relates to any outstanding charges, notices or orders affecting the Property which is rectified, discharged or complied with by the Vendor in accordance with Clause 7.1(b) or if the Vendor provides at the Purchaser's request, its undertaking in writing to the Purchaser within fourteen (14) Business Days from its receipt of the Purchaser's notification of such Legal requisition reply, to rectify, discharge or comply by the date stipulated in such notification; and
 - (ii) where, notwithstanding that such reply is unsatisfactory, the Purchaser has not given, pursuant to the provisions of Clause 7.1, written notice, to rescind this Agreement.

8. APPROVALS

8.1 Application for HDB Approvals

- (a) This sale and purchase is subject to and conditional upon the Parties obtaining the HDB Approvals, including the written approval from HDB for the sale and purchase of the Property and the assignment / transfer of the unexpired leasehold term under HDB Lease (the "**HDB Sale Approval**").

-
- (b) The Vendor shall complete the application to HDB for HDB Approvals (the “**HDB Application**”) and provide in respect of the HDB Application, such items / documents which are required to be completed by the Vendor. The Vendor shall comply with all regulations, guidelines and procedures which may be prescribed by HDB.
 - (c) The Purchaser shall complete in every respect the HDB Application together with all supporting documents and items required therein to be provided by the Purchaser as well as the Proposed Use Approvals (if applicable) for the Purchaser’s usage of the Property for the Purchaser’s Proposed Use. The Purchaser shall comply with all regulations, guidelines and procedures which may be prescribed by HDB and/or such other relevant authorities. The Purchaser shall forward to the Vendor or the Vendor’s Solicitors the duly completed HDB Application together with the requisite supporting documents and items as well as the Proposed Use Approvals (if applicable) within three (3) weeks from the date of this Agreement. The Vendor or the Vendor’s Solicitors shall thereafter submit to HDB the HDB Application after receipt from the Purchaser of the completed HDB Application with requisite supporting documents required to be submitted on the part of the Purchaser as well as the Proposed Use Approvals (if applicable) (together with the Vendor’s part of the HDB Application).
 - (d) The Vendor and the Purchaser shall keep each other informed of all developments relating to the application to HDB and of any reply from HDB. Save as provided herein, all conditions which may be imposed by the HDB on the Vendor in granting the HDB Approvals shall be complied with by the Vendor and all conditions which are imposed by HDB on the Purchaser in granting the HDB Approvals shall be complied with by the Purchaser.
 - (e) The HDB Approvals shall be deemed to be obtained on the date on which the Purchaser receives the letter issued by HDB relating to the in-principle consent to the assignment / transfer of the HDB Lease for the HDB Lease Term to the Purchaser. The Vendor and the Purchaser agree to co-operate and use reasonable endeavours to obtain HDB’s confirmation that HDB has no objections to the Vendor’s execution of the transfer/assignment of the Property within thirty (30) Business Days from the date of the HDB Approvals.
 - (f) The Vendor shall bear all administrative fees imposed by HDB in connection with the application for the HDB Approvals. The Purchaser shall bear all other fees, charges, costs and expenses imposed by HDB in connection with the application for the HDB Approvals.
 - (g) Unless already provided prior to Completion, each Party shall on Completion provide to the other Party a letter of confirmation certifying that there is no breach of the terms and conditions of the HDB Approvals.

8.2 Application for the Proposed Use Approval

- (a) In the event that clearance is required to be obtained from other relevant governmental authorities and/or statutory boards authorities (“**Authorities**”), the Purchaser shall make due application to the Authorities and obtain all necessary and/or required clearances and approvals (the “**Proposed Use Approvals**”) and the Vendor and the Purchaser agree to co-operate to facilitate the Purchaser’s application to obtain the Proposed Use Approvals. The Purchaser shall furnish the Vendor or the Vendor’s Solicitors with a copy of the Proposed Use Approvals as soon as they are available. The Purchaser’s intended use of the Property for the Purchaser’s Proposed Use shall be stated in the application for the HDB Approval. The “**Purchaser’s Proposed Use**” shall be for assembly and research and development of commercial refrigeration systems with supporting sales and distributions and related uses.

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- (b) Each Party agrees to bear its own costs, including but not limited to administrative or other incidental fees, payable in respect of such application for the Proposed Use Approvals.

9. GUARANTEES AND WARRANTIES

If there are any Building Guarantees and Warranties subsisting on Completion, the Vendor shall deliver to the Purchaser on Completion:

- (a) copies of the Building Guarantees and Warranties in **Appendix 2**; and
- (b) a deed of assignment ("**Guarantees and Warranties Assignment**") of the Building Guarantees and Warranties substantially in the form and containing the provisions set out in **Appendix 3**, executed by the Vendor in favour of the Purchaser.

10. COMPLETION

10.1 Date and Place

Subject to fulfilment of the conditions as set out under Clause 2.1, Completion shall take place at the office of the Vendor's Solicitors or such other place as the Vendor's Solicitors may specify on the latest of the following dates (unless otherwise agreed between the Vendor and the Purchaser) (the "**Completion Date**"):

- (a) the date falling on the expiry of twelve (12) weeks from the date of this Agreement; or
- (b) the date falling on the expiry of three (3) weeks from HDB's written confirmation that HDB has no objection to the Vendor's execution of the transfer or assignment of the Property.

10.2 Vendor's Deliverables

On Completion, against the payment by the Purchaser of the Purchase Price in accordance with Clause 4.2(b) by cashiers order(s), the Vendor shall deliver (unless already provided to the Purchaser prior to Completion) the following to the Purchaser:

- (a) an instrument of transfer of the HDB Lease, duly executed by the Vendor in favour of the Purchaser;
- (b) the original Certificate of Title (SUB) Volume 458 Folio 196;
- (c) a copy of HDB's written confirmation that it has no objections to the execution of the assignment or transfer of the HDB Lease (as the case may be);
- (d) a copy of HDB's written confirmation that it has no objections to the partial leaseback of the Property on Completion by the Vendor (as lessee) from the Purchaser (as landlord) in respect of the LA Premises;
- (e) a certified true copy of the resolution of the board of directors of the Vendor, which is in full force and effect, approving the entry of the Vendor into this Agreement and the transactions contemplated hereunder
- (f) a certified true copy of the shareholder resolution of the Vendor, which is in full force and effect, approving the entry of the Vendor into this Agreement and the transactions contemplated hereunder;
- (g) a GST tax invoice in relation to the entire Purchase Price, issued by the Vendor to the Purchaser;

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- (h) a copy of the draft notice of transfer to the Inland Revenue Authority of Singapore;
 - (i) the Guarantees and Warranties Assignment duly executed by the Parties;
 - (j) copies of the Guarantees and Warranties;
 - (k) a letter of confirmation by the Vendor addressed to the Purchaser confirming that either:
 - (i) the Vendor is resident in Singapore for tax purposes; or
 - (ii) the Vendor is not resident in Singapore for tax purposes, and the Vendor has not been assessed as a property trader by the Inland Revenue Authority of Singapore; and
 - (l) the Lease Agreement, duly executed by the Vendor (as lessee) and the Purchaser (as landlord).

10.3 Purchaser's Deliverables

On Completion, the Purchaser shall deliver (unless already provided to the Vendor prior to Completion) the following to the Vendor:

- (a) a certified true copy of the resolution of the board of directors of the Purchaser, which is in full force and effect, approving the entry of the Purchaser into this Agreement and the transactions contemplated hereunder; and
- (b) a certified true copy of the shareholder resolution of the Purchaser, which is in full force and effect, approving the entry of the Purchaser into this Agreement and the transactions contemplated hereunder.

10.4 Interest

If Completion does not take place on the Completion Date, and the delay in Completion is due solely to the default of:

- (a) the Vendor, the Vendor shall pay interest to the Purchaser calculated on the Purchase Price commencing on the day following the Completion Date up to and including the day of actual Completion, at the rate of six (6) per-cent per annum; and
- (b) the Purchaser, the Purchaser shall pay interest to the Vendor calculated on the Purchase Price commencing on the day following the Completion Date up to and including the day of actual Completion, at the rate of six (6) per-cent per annum.

11. VENDOR'S OBLIGATIONS

11.1 Vendor's Conduct Pending Completion:

With effect from the date of this Agreement and until Completion or rescission of this Agreement (whichever is earlier), the Vendor shall:

- (a) not create any mortgage, charge or other encumbrance over the Property or increase its current lines of credit under any existing mortgage, charge or other encumbrance over the Property;
- (b) not sell or transfer the Property or grant any other option inconsistent with the sale of the Property under this Agreement;
- (c) not unless required by law, do anything which prejudices or is likely to prejudice the rights of the Purchaser under this Agreement;

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- (d) maintain the Property in a good state of repair, allowing for fair wear and tear; and
 - (e) comply with all applicable laws, its obligations under all building, maintenance and other contracts to which it is a party and with the requirements and orders of any governmental agency and third parties where non-compliance or non-observance with those requirements or orders would impose some Encumbrance or other liability or restriction on the Property.

In the event of any breach by the Vendor of any of the Vendor's obligations of this Clause 11.1, the Purchaser may elect, in its absolute discretion, by notice in writing to the Vendor, to rescind this Agreement. Upon the Vendor's Solicitors' receipt of such notice, the Vendor shall, within seven (7) Business Days, rectify such breach to the satisfaction of the Purchaser (if so capable of being rectified), failing which this Agreement shall become null and void and of no further effect whatsoever, and the Vendor shall, within seven (7) Business Days, refund all moneys paid by the Purchaser to the Vendor pursuant to this Agreement and the Memorandum of Understanding, including the Initial Payment and/or the Deposit and GST thereon, without any interest or compensation whatsoever. On rescission, the Purchaser shall immediately return to the Vendor all title documents and at the Purchaser's cost withdraw any caveats and cancel any entries relating to the Property in the Singapore Land Authority. Each Party shall bear its own solicitors' costs in the matter and neither shall have any further claim or demand against the other for damages, costs or otherwise.

12. DAMAGE TO PROPERTY

- (a) The Property is held at the risk of the Vendor until Completion and shall pass to the Purchaser upon Completion or upon the Purchaser taking possession of the Property, whichever is earlier.
- (b) If at any time prior to Completion, the Property is materially damaged, the Purchaser may elect, by notice in writing to the Vendor, to rescind this Agreement. Upon the Vendor's Solicitors' receipt of such notice, this Agreement shall become null and void and of no further effect whatsoever, and the Vendor shall, within seven (7) Business Days, refund all moneys paid by the Purchaser to the Vendor pursuant to this Agreement and the Memorandum of Understanding, including the Initial Payment and/or the Deposit and GST thereon, without any interest or compensation whatsoever. On rescission, the Purchaser shall immediately return to the Vendor all title documents and at the Purchaser's cost withdraw any caveats and cancel any entries relating to the Property in the Singapore Land Authority. Each Party shall bear its own solicitors' costs in the matter and neither shall have any further claim or demand against the other for damages, costs or otherwise.
- (c) In the event the Purchaser elects, by notice in writing to the Vendor, not to rescind this Agreement, the Vendor must at no cost and expense to the Purchaser repair that damage prior to Completion or within two (2) months from the identification of such damage by the Parties, whichever is later (the "**Repair Date**"). If the damage is not repaired by the Repair Date as agreed between the Vendor and the Purchaser, Clause 10.4 shall apply.
- (d) For the purposes of Clauses 12(b) and 12(e), "**materially damaged**" means damage to the Property so as to be unfit for use or occupation or rendered unsafe or inaccessible or cannot lawfully be used.
- (e) If, at any time prior to Completion, the Property or any part of it is damaged, but not materially damaged, then the Purchaser may not rescind this Agreement.

13. DELIVERY OF POSSESSION OF THE PROPERTY**13.1 As is Where is**

The Property, together with the Plant and Equipment, is sold on an “as is where is” basis. The Purchaser is deemed to have inspected the Property (together with the Plant and Equipment) on or before the date of this Agreement and have notice of and be satisfied as to the actual state and condition of the Property (together with the Plant and Equipment) as regard access, repair, physical state, light, air, drainage and in all other respects and shall not be entitled to make or raise any enquiry, requisition or objection whatsoever in respect thereof.

13.2 Building Maintenance Contracts

Unless the Vendor in its discretion elects to discharge and terminate any maintenance or other contracts entered into by the Vendor and/or its affiliates relating to the Property prior to Completion, the Purchaser will take over and assume the rights and obligations of the Vendor under such contracts upon Completion.

13.3 Misdescription shall not annul this Agreement

Any misdescription of the area or otherwise of the Property or any part thereof shall not annul the sale nor shall the Purchaser be allowed any compensation in respect thereof. The Purchaser therefore agrees that it shall not make or raise any enquiry, requisition, objection and/or claim whatsoever in respect thereof.

14. REPRESENTATIONS AND WARRANTIES

(a) The Vendor represents, warrants and undertakes that:

- (i) it has full power and authority to enter into and perform this Agreement and this Agreement constitutes valid and binding obligations on its part; and
- (ii) the execution and delivery of and the performance by it of its obligations under this Agreement will not:
 - (1) result in a breach of any provision of its Memorandum or Articles of Association or other constitutive documents, if any; or
 - (2) result in a breach of any order, judgment or decree of any court, governmental agency or regulatory body to which it is a party or by which it is bound.

(b) The Purchaser represents, warrants and undertakes that:

- (i) it has full power and authority to enter into and perform this Agreement and this Agreement constitutes valid and binding obligations on its part; and
- (ii) the execution and delivery of and the performance by it of its obligations under this Agreement will not:
 - (1) result in a breach of any provision of its Memorandum or Articles of Association or other constitutive documents, if any; or
 - (2) result in a breach of any order, judgment or decree of any court, governmental agency or regulatory body to which it is a party or by which it is bound.

15. GST

- (a) The Purchase Price and any other sums payable by or to the Vendor under this Agreement shall be exclusive of GST which may from time to time be imposed or charged or increased before on or after the date of this Agreement by the relevant authority. In the event that the GST is required by law to be paid on the Purchase Price or any additional sum is required to be paid on or in respect of the whole or part of any sums payable by or to the Vendor under this Agreement, the same shall be borne by the Purchaser, be it of retrospective effect or not, and the Purchaser shall immediately pay to the Vendor on demand whether before on or after completion of the sale and purchase herein the GST in addition to all other sums payable to the Vendor. The Purchaser shall fully indemnify the Vendor against the payment if the Vendor is required by law to collect and make payment in respect of the GST and/or any loss, damage, claim and/or penalty which may be suffered by the Vendor due to the failure/delay in payment by the Purchaser. This condition and the obligation of the Purchaser shall not merge in the assurance of the Property to the Purchaser on completion or upon registration of such assurance.
- (b) Where applicable, in the event of the Initial Payment and/or the Deposit and GST thereon, or any money being refunded to the Purchaser for any reason under the provision herein or if the GST paid is more than is required or if ascertained to be not required, and in the event that the Vendor has paid the GST thereon to the Comptroller of Goods and Services Tax, the Vendor shall not be liable in any way whatsoever to the Purchaser if the Comptroller of Goods and Services Tax does not agree to refund the said GST or agrees to refund but only a part thereof.

16. CONFIDENTIALITY**16.1 Confidential Information to Be Kept Confidential**

All Confidential Information shall be kept confidential by the recipient unless or until compelled to be disclosed by judicial or administrative procedures or until the recipient can reasonably demonstrate:

- (a) that it is or part of it, is in the public domain, whereupon, to the extent that it is public, this obligation shall cease; or
- (b) that it is required to be furnished to the professional advisers or the bankers of any of the Parties or as may be required by law, a court of competent jurisdiction or any governmental or regulatory agencies,

and in all such cases, this obligation shall cease but only to the extent required under the respective circumstances.

16.2 Parties to Take Reasonable Steps

The Parties shall take all reasonable steps to minimise the risk of disclosure of Confidential Information, by ensuring that only those of their directors, employees, servants and agents whose duties will require them to possess any of such information shall have access thereto, and that they shall be instructed to treat the same as confidential.

16.3 Announcements

No Party shall divulge to any third party (except to their respective professional advisers or except as required by applicable law or the rules of any stock exchange) any information regarding the existence or subject matter of this Agreement without the prior written consent of the other Party (such consent not to be unreasonably withheld).

16.4 Obligation to Continue

The obligations contained in this Clause shall inure, even after the termination of this Agreement, without limit in point of time except and until any Confidential Information falls within the provisions of Clauses 16.1(a) and 16.1(b).

17. MISCELLANEOUS**17.1 Entire Agreement**

This Agreement (together with any documents referred to herein or executed contemporaneously by the Parties in connection herewith) embodies all the terms and conditions agreed upon between the Parties as to the subject matter of this Agreement and supersedes and cancels in all respects all previous representations, warranties, agreements and undertakings between the Parties with respect to the subject matter hereof, whether such be written or oral.

17.2 No Implied Waivers

No failure to exercise, nor any delay in exercising, on the part of any Party, any right or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy.

17.3 Contracts (Rights of Third Parties) Act

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act (Chapter 53B of Singapore) (as amended or revised from time to time) to enforce any term of this Agreement.

17.4 Non-Assignment

No Party shall (nor shall it purport to) assign, transfer, charge or otherwise deal with all or any of its rights, interests or obligations under this Agreement nor grant, declare, create or dispose of any right, interest or obligation in it without the prior written consent of the other Party.

17.5 Agreement to Bind Successors and Assigns

This Agreement shall be binding on and shall inure to the benefit of each of the Parties' successors and permitted assigns. Any reference in this Agreement to any of the Parties shall be construed accordingly.

17.6 Costs and Expenses

Each Party shall bear its own legal, professional and other costs and expenses incurred by it in connection with the negotiation, preparation or completion of this Agreement, and the sale and purchase of the Property. The Purchaser shall bear all stamp duty payable in connection with the purchase of the Property.

17.7 Counterparts

This Agreement may be signed in any number of counterparts, all of which taken together shall constitute one and the same agreement.

17.8 Governing Law and Jurisdiction

This Agreement shall be governed by, and construed in accordance with, the laws of Singapore and the Parties hereby irrevocably submit to the exclusive jurisdiction of the courts of Singapore.

17.9 Agent for collection of Purchase Price

The Vendor hereby confirms that the Vendor's Solicitors have been appointed as the Vendor's agents for the collection of the balance of the Purchase Price and any other moneys due under this Agreement. The Vendor acknowledges that payment to the Vendor's Solicitors or payment as directed by the Vendor's Solicitors shall constitute a full discharge of the payment obligations by the Purchaser to the Vendor.

17.10 Inability of Vendor to perform its obligations due to Order of Court, etc.

It is hereby agreed between the Parties hereto that if prior to completion any of the Vendor's obligations under this Agreement is prevented, hindered or otherwise rendered incapable of performance, whether by Order of Court, the Government or other local authorities, the Vendor may, at its option, annul the sale herein in which event the sale shall be treated as cancelled and all moneys paid towards the Purchase Price refunded to the Purchaser free of interest or compensation.

17.11 Partial Invalidity

If any term or provision in this Agreement shall be held to be illegal or unenforceable, in whole or in part, under any enactment or rule of law, such term or provision or part shall to that extent be deemed not to form part of this Agreement but the enforceability of the remainder of this Agreement shall not be affected.

Appendix 1
Plant and Equipment

M&E INVENTORY LIST

1. LIST OF AIR-CONDITION/MECHANICAL VENTILATION EQUIPMENT

1.1 Cooling Towers (Located Rooftop)

S/No	Description of Equipment/Material	Location Serving	Quantity
1	CT1 Nihon Spindle	1st & 3rd storeys	1 no.
2	CT4 Nihon Spindle	3rd storey	1 no.
3	CT5 Shinwa	1st & 3rd storeys	1 no.

1.2 Chillers (Located at 3rd storey Chiller Plant Room)

S/No	Description of Equipment/Material	Location Serving	Quantity
1	Chiller 1 Carrier	1st & 3rd storeys	1 no.
2	Chiller 2 Carrier	1st & 3rd storeys	1 no.
3	Chiller 3 Carrier	1st & 3rd storeys	1 no.

1.3 Chilled Water Pump / Condensor Water Pump (Located 3rd storey Chiller Plant Room)

S/No	Description of Equipment/Material	Location Serving	Quantity
1	Chilled Water Pump (supporting CT1 & CT5)	1st & 3rd storeys	4 nos. located @chiller plant room
2	Condensor Water Pump(supporting CT1 & CT5)	1st & 3rd storeys	4 nos. located @chiller plant room
3	Condensor Water Pump (supporting CT4)	3rd storey	2 nos. located @ CT4

1.4 Chilled Water Air Handling Units & Fan Coil Units

S/No	Description of Equipment/Material	Location At	Quantity
1	AHU 1-1	1 st storey former ECRI room	1 no.
2	AHU 1-3	1 st storey former Shipping Office	1 no.
3	AHU 1-4	1 st storey Racking Storage Area	1 no.
4	AHU 1-5	1 st storey Racking Storage Area	1 no.
5	AHU 1-6	1 st storey Loading Bay former Receiving Area	1 no.
6	AHU 1-7	1 st storey FG Storage Area	1 no.
7	AHU 1-8	1 st storey former PD GBT M/c area	1 no.
8	AHU 1-9	1 st storey former PD M/C Folding Area	1 no.
9	AHU 1-10	1 st storey former PD Saddle Stitcher Area	1 no.
10	AHU 1-11	1 st storey former PD Printing Machine Area	1 no.
11	AHU 1-12	1 st storey former PD Printing Machine Area	1 no.
12	AHU 1-13	1 st storey above former AMD Security Scanning Area	1 no.
13	AHU 1-14	1 st storey above corridor between SWAP & former PIB room	1 no.
14	AHU 1-15	1 st storey SWAP room	1 no.
15	AHU 1-16	1 st storey above former PIB room	1 no.
16	AHU 1-17	1 st storey former PIB room	1 no.
17	AHU 1-18	1 st storey former PIB room	1 no.
18	AHU 1-19	1 st storey above former PIB room	1 no.
19	AHU 1-20	1 st storey office area	1 no.

20	AHU 1-21	1 st storey former Staff room	1 no.
21	AHU 1-22	1 st storey former PD Graphic room	1 no.
22	AHU 1-23	1 st storey above corridor between SWAP & former PID room	1 no.
23	AHU 1-24	1 st storey loading/unloading bay	1 no.
24	AHU 1-25	1 st storey loading/unloading bay	1 no.
25	AHU 2-1	3 rd storey Production & Office	1 no.
26	AHU 2-2	3 rd storey Production & Office	1 no.
27	AHU 3-1	3 rd storey Warehouse Area	1 no.
28	AHU 3-2	3 rd storey Warehouse Area	1 no.
29	AHU 3-3	3 rd storey Warehouse Area	1 no.
30	AHU 3-4	3 rd storey Receiving & Warehouse	1 no.
31	AHU 3-5	3 rd storey Receiving & Warehouse	1 no.
32	FCU 1-1 (Chilled Water)	1 st storey former Maintenance Workshop	1 no.
33	FCU 1-2 (Chilled Water)	1 st storey above 1 st floor female toilet	1 no.
34	FCU 1-3 (Chilled Water)	1 st storey above former Library	1 no.
35	FCU 1-4 (Chilled Water)	1 st storey former Maintenance Workshop	1 no.
36	Cassette FCU (Chilled Water)	3 rd storey New Shipping Office	1 no.
37	Cassette FCU (Chilled Water)	3 rd storey New Shipping Office	1 no.

1.5 Package Unit / Single Split Unit / VRV / Fresh Air Pre Cool / Window Unit

S/No	Description of Equipment/Material	Location Serving	Quantity
1	Package Unit	3 rd storey Current Admin Office	1 no.
2	Package Unit	3 rd storey New Staff Room, Production Office & Ops Mgr Office	1 no.
3	Single Split Unit	3 rd storey CM room	1 no.
4	Single Split Unit	3 rd storey IT switch room	1 no.
5	Single Split Unit (ducted FCU)	1 st storey former PIB room	1 no.
6	Single Split Unit (ducted FCU)	1 st storey former PIB room	1 no.
7	Single Split Unit	1 st storey former Strong room	1 no.
8	Single Split Unit	3 rd storey PABX room	1 no.
9	Single Split Unit	1 st storey IT switch room	1 no.
10	Single Split Unit	1 st storey former PABX room	1 no.
11	Single Split Unit	1 st storey Security Control Room	1 no.
12	Single Split Unit	1 st storey Guardhouse	1 no.
13	Single Split Unit	3 rd storey new Security Control room	1 no.
14	Single Split Unit	3 rd storey IT switch room (behind scissor lift)	1 no.
15	Single Split Unit	3 rd storey new IQA room	1 no.
16	VRV System (multi split)	3 rd storey Production room	1 no. (replace AHU 2-3, AHU 2-4, AHU 2-5)
17	VRV System (multi split)	3 rd storey Production & Maintenance Office	1 no. (replace AHU 2-3, AHU 2-4, AHU 2-5)
18	Fresh Air Pre Cool	1 st storey ex-PIB room	1 no.
19	Fresh Air Pre Cool	1 st storey ex-PIB room	1 no.
20	Window Unit	1 st storey Loading Bay Guardhouse	1 no.

1.6 Mechanical Ventilation System

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location Serving</u>	<u>Quantity</u>
1	Exhaust Air Fan F(E)/1-1	1 st storey Baler Room	1
2	Supply Air Fan F(S)/1-2	1 st storey Baler Room	1
3	Exhaust Air Fan F(E)/1-3	1 st storey Toilet/Locker GL 13-14/C-E	1
4	Exhaust Air Fan F(E)/1-4	1 st storey Toilet/Locker GL 13-14/C-E	1
5	Supply Air Fan F(S)/1-5	1 st storey Production near AHU 1-1	1
6	Supply Air Fan F(S)/1-6	1 st storey Production near AHU 1-12	1
7	Supply Air Fan F(S)/1-7	1 st storey Production bet AHU 1-18 & 1-19	1
8	Supply Air Fan F(S)/1-8	1 st storey Production GL G-J/1-4	1
11	Exhaust Air Fan F(E)/1-11	2 nd storey Generator Room	1
12	Exhaust Air Fan F(E)/1-12	2 nd storey Sprinkler Pump Room	1
13	Exhaust Air Fan F(E)/1-13	1 st storey Loading / Unloading Bay	1
14	Exhaust Air Fan F(E)/1-14	1 st storey Toilet (Reception)	1
15	Supply Air Fan F(S)/2-3	3 rd storey Production GL 12-14/G-J & AHU 2-1 & AHU 2-2	1
16	Exhaust Air Fan F(E)/2-1	3 rd storey male toilet GL 13-15/K	1
17	Exhaust Air Fan F(E)/2-2	3 rd storey female toilet GL 13-15/K	1
18	Exhaust Air Fan F(E)/2-4	3 rd storey Chiller Plant Room	1
19	Exhaust Air Fan F(E)/2-5	3 rd storey Chiller Plant Room	1
20	Supply Air Fan F(S)/2-6	3 rd storey Chiller Plant Room	1
21	Exhaust Air Fan F(E)/2-7	3 rd storey Air Compressor Room	1
22	Exhaust Air Fan F(E)/R-1	3 rd storey transformer rooms 1 & 2	1

2. LIST OF FIRE PROTECTION EQUIPMENT

2.1 Automatic Fire Alarm System

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	Main Fire Alarm Panel	1 st storey reception lobby	1
2	Sub Fire Alarm Panel SIB/1-1	1 st storey reception lobby	1

3	Sub Fire Alarm Panel SIB/2-1	3rd storey staircase 3	1
4	Sub Fire Alarm Panel SIB/3-1	3rd storey warehouse	1
5	Sub Fire Alarm Panel SIB/4-1	3rd storey office corridor	1

2.2 Sprinkler System

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	Sprinkler Water Tank (Eff. 216 m ³)	3rd storey plant room	1
2	SP1 Fire Pump (electrical)	2nd storey sprinkler pump room	1
3	SP2 Fire Pump (diesel)	2nd storey sprinkler pump room	1
4	Jockey Pump (electrical)	2nd storey sprinkler pump room	1
5	Sprinkler Control Valves (SCV/1-1, 1-2, 1-3)	2nd storey sprinkler pump room	3
6	Hose Reel Pump 1	2nd storey sprinkler pump room	1
7	Hose Reel Pump 2	2nd storey sprinkler pump room	1

2.3 Smoke Detectors, Heat Detectors, Manual Call Points, Alarm Bells

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	Smoke Detectors	Throughout the premises	~14 nos.
2	Manual Call Points	Throughout the premises	~20 nos.
3	Alarm Bells	Throughout the premises	~24 nos.

2.4 Hose Reel System

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	Fire Hose Reel	1st & 3rd storeys	19 nos.
2	Fire Hose Pack	1st & 3rd storeys	11 nos.

2.5 Hydrant System

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	Pillar Hydrant	External Area	3 nos

2.6 Fire Extinguisher System

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	Fire Extinguisher	Throughout the premises	~90 nos.

2.7 Fire Suppression System

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	FM 200 (System 88)	3rd storey IT server room	—

3. LIST OF PLUMBING EQUIPMENT

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	FRP Domestic Water Tank 2A & 2B	Rooftop above 3rd storey Production Male Toilet	1
2	Pressure Vessel	Rooftop above 3rd storey Production Male Toilet	2
3	Domestic Water Pump	Rooftop above 3rd storey Production Male Toilet	2
4	FRP Domestic Water Tank 1A & 1B	3rd storey Facility Plant room	1
5	Pressure Vessel	3rd storey Facility Plant room	4
6	Domestic Water Pump	3rd storey Facility Plant room	2

4. LIST OF OTHER EQUIPMENT

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	Dock Levellers (Electrical)	1st Storey Loading/Unloading Bays	2 nos.
2	Roller Shutter (Electrical)	1st Storey Loading/Unloading Bays	7 nos.

5. LIST OF ELECTRICAL MAIN SWITCHBOARD MSB 2-1

<u>S/No</u>	<u>Circuit No</u>	<u>MSB 2-1(Located at Low Tension Switch Room)</u>		<u>Location Served</u>	<u>Quantity</u>
		<u>Outgoing Rating</u>			
1	OC/EF	—		—	1
2	Incoming from TF 2-1	2500A		—	1
3	SB/3-2	350A		LT switchroom	1
4	DB 1/MM	300A		1st storey Isolator No.6	1
5	SB/3-1	300A		LT switchroom	1
6	Capacitor Bank	600A		—	1
7	DB 1/PL	200A		1st storey PD graphic room	1
8	Not in use	30A		—	1
9	DB/P6	30A		1st storey maintenance wk	1
10	Not in use	30A		—	1

11	To MCP/2-1	1000A	3rd storey chiller plant room	1
12	Not in use	60A	—	1
13	Not in use	60A	—	1
14	Not in use	60A	—	1
15	DB Polar Cutter	100A	1st storey outside staff pantry	1
16	DB Heidelberg 2C	100A	1st storey former printing press area	1
17	Assembly DB	100A 150 A	3rd Storey Corridor to Washrooms	1
18	Coupler	2500A	—	1
19	To MCP/2-1	1000A	3rd storey chiller plant room	1
20	SSB 1/P	160A	1st storey former PIB room	1
21	DB (removed)	1000A	Isolator No. 9	1
22	SSB 2/1	160A	3rd storey office	1
23	DB Workshop	60A	1st storey workshop	1
24	Capacitor Bank	600A	—	1
25	DB-150A	160A	3rd storey near PU past area	1
26	DB 1/1	60A	1st storey reception	1
27	DB 2/C1	40A	3rd storey IT room	1
28	DB-100A	100A	3rd storey near receiving area	1
29	DB 1/L1	60A	1st storey reception	1
30	DB	60A	Loading / Unloading Bay	1
31	EMSB 2-1	500A	LT switch room	1
32	DB	400A	1st storey Isolator no. 10	1
33	DB	400A	1st storey Isolator no. 8	1
34	OC/EF	—	—	1
35	Incoming from TF 2-2	2500A	—	1
36	SB-1	630A	1st storey former PIB room	1

6. LIST OF ELECTRICAL EMERGENCY MAIN SWITCHBOARD EMSB 2-1

S/No	Circuit No	EMSB 2-1(Located at Low Tension Switch Room)		Quantity
		Outgoing Rating	Location Served	
1	Main Breaker	500A	—	1
2	DB/E1-P1	60A	1st storey PIB room	1

3	DB/E1-P3	60A	1st storey outside Staff room	1
4	DB/E1-1	40A	1st storey Reception	1
5	Not in use	160A	—	1
6	FCP/1-1	400A	Sprinkler Pump Room	1
7	DB/E2-1	60A	3rd storey production area	1
8	DB/E2-R	40A	3rd storey LT switchroom	1
9	Spare	30A	—	1
10	DB UPS	100A	3rd storey IT Room	1
11	Not in use	100A	—	1
12	LSB/2-1 & LSB/2-2	125A	Passenger & Good Lift motor room respectively	1
13	E3/1	30A	3rd Storey New Staff Room	1
14	Spare	30A	—	1
15	FCP/2-1	400A	Sprinkler Pump Room	1
16	Spare	60A	—	1
17	Not in use	150A	—	1
18	HR/2-1	30A	Sprinkler Pump Room	1

7. STANDBY GENERATOR

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	Diesel Standby Generator (330kVA)	2nd storey	1

8. LIST OF LIFT

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	Passenger Lift 750 kg (KONE)	Reception Area	1
2	Goods Lift 2,500kg (KONE)	Production Area	1
3	Platform Scissor Lift (1,500 kg)	Loading /Unloading Bay	1

9. LIST OF ELECTRICAL MOTORISED GATES / VEHICLE ENTRY BARRIERS

<u>S/No</u>	<u>Description of Equipment/Material</u>	<u>Location</u>	<u>Quantity</u>
1	Steel Gate (Motorised)	Entry and Exit	2 sets
2	Vehicle Entry Barrier (Electrical)	Entry and Exit	2 sets
3	Vehicle Entry Barrier (Electrical)	Beside Loading / Unloading Bay Guardhouse	1 Set

Appendix 2

Building Guarantees and Warranties

ModusLink Pte Ltd

Appendix 2 - Building Guarantees and Warranties

Warranties covering

Item	Date of Expiry
Roof waterproofing for Concrete Roof	14-Dec-22

Appendix 3

Form of Assignment of Guarantees and Warranties

**DEED OF ASSIGNMENT
OF
BUILDING GUARANTEES AND WARRANTIES**

BETWEEN

MODUSLINK PTE. LTD.
(as Vendor)

AND

FAR EAST GROUP LIMITED
(as Purchaser)

DATED THE 4TH DAY OF OCTOBER 2017

DEED OF ASSIGNMENT

THIS DEED is made on the 4th day of October 2017.

BETWEEN:

- (1) **MODUSLINK PTE. LTD.** (UEN: 198903169H), a company established in the Republic of Singapore with its registered address at 8 Marina Boulevard #05-02 Marina Bay Financial Centre Singapore 018981 (the “**Vendor**”); and
- (2) **FAR EAST GROUP LIMITED** (UEN: 196400096C), a company established in the Republic of Singapore with its registered address at 112 Lavender Street #04-00 Far East Refrigeration Building Singapore 338728 (the “**Purchaser**”).

WHEREAS:

- (A) Pursuant to a sale and purchase agreement dated 4 October 2017 (“**Sale and Purchase Agreement**”) made between the Vendor of the one part and the Purchaser of the other part, the Vendor had agreed to sell and the Purchaser had agreed to purchase the Property together with the Plant and Equipment, upon the terms and subject to the conditions contained in the Sale and Purchase Agreement.
- (B) The Vendor is entitled to the benefit of the guarantees and warranties furnished to the Vendor, and which are subsisting as at Completion Date in respect of the Property and/or the Plant and Equipment as more particularly set out in Appendix 2 of the Sale and Purchase Agreement (collectively the “**Building Warranties**” and individually a “**Warranty**”).
- (C) Under the terms of the Sale and Purchase Agreement, the Vendor has agreed that it shall, from and including the Completion Date, assign to the Purchaser all of its rights and benefits under the Building Warranties.

NOW IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Deed, unless the context requires otherwise, all words and expressions defined in the Sale and Purchase Agreement shall have the same meaning when used or referenced herein.

1.2 Interpretation

- (a) The headings in this Deed are for convenience only and shall not affect the interpretation hereof.
- (b) Unless the context otherwise requires, references to the singular number shall include references to the plural number and vice versa, references to natural persons shall include bodies corporate, and the use of any gender shall include all genders.
- (c) References to any agreement or document including this Deed shall include such agreement or document as amended, modified, varied or supplemented from time to time.

-
- (d) Any reference to a statutory provision shall include such provision and any regulations made in pursuance thereof as from time to time modified or reenacted whether before or after the date of this Deed so far as such modification or reenactment applies or is capable of applying to any transactions entered into prior to the date of this Deed and (so far as liability thereunder may exist or can arise) shall include also any past statutory provisions or regulations (as from time to time modified or reenacted) which such provisions or regulations have directly or indirectly replaced.
 - (e) References to a “**person**” shall be construed so as to include any individual, firm, company, corporation or other body corporate, government, state or agency of a state or any joint venture, association, partnership, works council or employee representative body (whether or not having separate legal personality).
 - (f) References to times of the day and days of the year are to time and dates in Singapore unless otherwise stated.
 - (g) References to any Singapore legal term for any action, remedy, method or judicial proceeding, legal document, legal status, court, official, or any legal concept or thing shall in respect of any jurisdiction other than Singapore be deemed to include what most nearly approximates in that jurisdiction to the Singapore legal term.
 - (h) The words “**written**” and “**in writing**” include any means of visible reproduction.

2. ASSIGNMENT

- (a) Pursuant to the Sale and Purchase Agreement, the Vendor hereby assigns absolutely unto the Purchaser all of its present and future rights, interests and benefits under the Building Warranties with effect from and including the Completion Date.
- (b) The Vendor covenants with the Purchaser that it shall serve on the other party (“**Counter Parties**”) to each of the Building Warranties a notice of this Deed.
- (c) In the event that the Counter Parties countersign and return an acknowledgement of the notice referred to in Clause 2(b), the Vendor will deliver such acknowledgement to the Purchaser. For the avoidance of doubt, the Vendor shall not be obliged to procure the Counter Parties to countersign and return the acknowledgement to the notice referred to in Clause 2(b).

3. REPRESENTATIONS AND WARRANTIES

- (a) The Vendor represents, warrants and undertakes that:
 - (i) it has full power and authority to enter into and perform this Deed and this Deed constitutes valid and binding obligations on its part; and
 - (ii) the execution and delivery of and the performance by it of its obligations under this Deed will not:
 - (1) result in a breach of any provision of its Memorandum or Articles of Association or other constitutive documents, if any; or
 - (2) result in a breach of any order, judgment or decree of any court, governmental agency or regulatory body to which it is a party or by which it is bound.

-
- (b) The Purchaser represents, warrants and undertakes that:
- (i) it has full power and authority to enter into and perform this Deed and this Deed constitutes valid and binding obligations on its part; and
 - (ii) the execution and delivery of and the performance by it of its obligations under this Deed will not:
 - (1) result in a breach of any provision of its Memorandum or Articles of Association or other constitutive documents, if any; or
 - (2) result in a breach of any order, judgment or decree of any court, governmental agency or regulatory body to which it is a party or by which it is bound.
- (c) In respect of the Building Warranties, the Vendor acknowledges and agrees that it remains fully liable for any claims arising from the Vendor's action, omission and/or default on or before Completion Date (Completion Date inclusive).

4. SEVERABILITY

The assignment herein in respect of each Warranty is severable and distinct from the remaining Building Warranties and if the assignment of any one or more of the Building Warranties or any part(s) thereof respectively is or becomes illegal, invalid or unenforceable, the legality, validity or enforceability of the assignment of the remaining Building Warranties or any part(s) thereof respectively shall not be thereby affected or impaired in any way.

5. ENTIRE AGREEMENT

This Deed (together with the Sale and Purchase Agreement and any documents referred to herein / therein or executed contemporaneously by the Parties in connection herewith / therewith) embodies all the terms and conditions agreed upon between the Parties as to the subject matter of this Deed and supersedes and cancels in all respects all previous representations, warranties, agreements and undertakings between the Parties with respect to the subject matter hereof, whether such be written or oral.

6. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT

A person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act (Chapter 53B of Singapore) (as amended or revised from time to time) to enforce any term of this Deed.

7. COUNTERPARTS

This Deed may be signed in any number of counterparts, all of which taken together shall constitute one and the same agreement.

8. GOVERNING LAW AND JURISDICTION

This Deed shall be governed by, and construed in accordance with, the laws of Singapore and the Parties hereby irrevocably submit to the exclusive jurisdiction of the courts of Singapore.

IN WITNESS WHEREOF this Deed has been entered into on the date stated at the beginning.

The Vendor

SIGNED by)
for and on behalf of)
MODUSLINK PTE. LTD.)
in the presence of:)

Signature
Designation

Signature
Name of Witness:
Designation

The Purchaser

SIGNED by)
for and on behalf of)
FAR EAST GROUP LIMITED)
in the presence of:)

Signature
Designation

Signature
Name of Witness:
Designation

Appendix 4

Building Maintenance Contracts

ModusLink Pte Ltd

Appendix 4—Building Maintenance Contracts

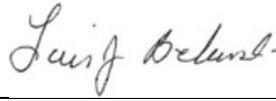
S/no	Service Contractor	Description of Services	Service Periods	Effective Date		Proposed Service Duration	Remarks
				From	Till		
1	System Pest Control Services Pte Ltd	Pest Control Services	1 Year	1-Mar-17	28-Feb-18	Fortnightly	
2	Sprinkler Fire System Pte Ltd	Fire Protection System Services	1 Year	1-Jun-17	31-May-18	Weekly	
3	Futuremate & Plumbing Services	Air Compressor Equipment Services	1 Year	1-Jun-17	31-May-18	Quarterly	
4	En-Syst Equipment & Services Pte Ltd	Standby Generator Quarterly Services Annual Generator Maintenance	1 year	1-Sep-16	31-Aug-17	Quarterly Yearly—ASD	Moduslink will renew contract
5	Kone Ptd Ltd	Passenger & Cargo Lift Services	1 Year	1-Sep-16	31-Aug-17	Monthly	Moduslink will renew contract
6	Accelsius Pte Ltd	Air Con AHU, FCU , ventilation Fan & Split Unit Air-con	1 Year	1-Oct-16	30-Sep-17	Monthly	Moduslink will renew contract
7	Carrier Singapore (Pte) Ltd	Air-Con Chiller Bi-Monthly Maintenance	1 Year	1-Oct-16	30-Sep-17	Bi-Monthly (Oct 16, Dec 16, Feb 17 & Apr 17, Jun 17 & Aug 17)	Moduslink will renew contract
		Air-con chillers Annual Shutdown Maintenance for 3 chillers				Yearly	Moduslink will renew contract
8	Y&T Aircon Engineering Pte Ltd	Cooling Tower & Chiller Chilled Water Chemical Treatment	1 Year	1-Oct-16	30-Sep-17	Fortnightly	Moduslink will renew contract
		EMA Licensing & Inspection				Monthly	Moduslink will renew contract
9	Litewell Engineering Pte Ltd	Annual Shutdown Maintenance + Partial Discharge	1 Year	1-Nov-16	31-Oct-17	Yearly	Moduslink will renew contract
		Building Lightning Protection				Yearly	Moduslink will renew contract
10	Ademco (Far East) Pte Ltd	DECAM 24hrs Fire Alarm Monitoring	1 Year	26-Nov-16	25-Nov-17	Quarterly	Moduslink will renew contract

IN WITNESS WHEREOF this Agreement has been entered into on the date stated at the beginning.

The Vendor

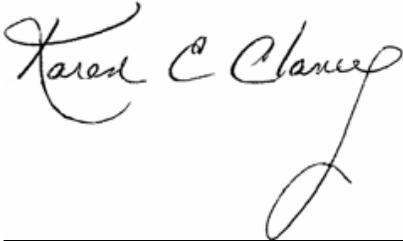
SIGNED by
for and on behalf of
MODUSLINK PTE. LTD.

)
)
)
)



in the presence of:

Signature: Louis J. Belardi
Designation: Director



Signature
Name of Witness: Karen E. Clancy
Designation: Paralegal

The Purchaser

SIGNED by
for and on behalf of
FAREAST GROUP LIMITED

)
)
)
)



in the presence of:

Signature : Loh Mun Yew
Designation: Chief Executive Officer



Signature
Name of Witness: Francis Lai Kum Wai
Designation: Chief Financial Officer

