

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

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended July 31, 2022

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)

2000 Midway Ln
Smyrna, Tennessee
(Address of principal executive offices)

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

37167
(Zip Code)

(914) 461-1276
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value	STCN	Nasdaq Capital Market
Rights to Purchase Series D Junior Participating Preferred Stock	--	Nasdaq Capital Market

**Securities registered pursuant to Section 12(g) of the Act:
None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted 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 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 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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

The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant computed with reference to the price at which the common stock was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter was \$67.7 million.

On October 21, 2022, the Registrant had 60,657,539 outstanding shares of common stock, \$0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Unless earlier included in an amendment to this Annual Report on Form 10-K, portions of the registrant's definitive proxy statement to be delivered to stockholders in connection with the Company's 2022 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

STEEL CONNECT, INC.

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As used in this Form 10-K (this "Report" or this "Form 10-K"), unless the context otherwise requires, the terms "we," "us," "our," "Steel Connect" and the "Company" refer to Steel Connect, Inc., a Delaware corporation, together with its consolidated subsidiaries.

All dollar amounts used in this Report are in thousands, except for common share and per common share data, unless otherwise indicated.

PART I

FORWARD-LOOKING STATEMENTS AND RISK FACTORS SUMMARY

This Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including, in particular, forward-looking statements under the headings "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data." These statements appear in a number of places in this Report and include statements regarding the Company's intent, belief or current expectations with respect to (i) its financing plans, (ii) trends affecting its financial condition or results of operations and (iii) the impact of competition. The words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and similar expressions are intended to identify such forward-looking statements; however, this Report also contains other forward-looking statements in addition to historical information. This Report contains forward-looking statements pertaining to, but not limited to, information with respect to a proposed transaction between the Company and Steel Partners Holdings L.P. ("Steel Holdings"). All statements other than statements of historical fact, including without limitation, those with respect to the Company's goals, plans, expectations and strategies set forth herein are forward-looking statements. The below important factors and uncertainties, among others, could cause actual results to differ materially from those described in these forward-looking statements. The below is also a summary of the risk factors described in "Risk Factors" in Part I, Item 1A of this Report.

RISKS RELATED TO OUR BUSINESS, OPERATIONS AND INDUSTRY

- Changes in our relationships with significant clients, including the loss or reduction in business from one or more of them, could have a material adverse impact on our business.
- If the demand for supply chain marketing services declines, or if we are unable or do not effectively integrate new or emerging marketing industry trends into our services and offerings, our revenue and results of operations could be adversely affected.
- We may have difficulty achieving and sustaining operating profitability, and if that depletes our working capital balances, our business could be materially and adversely affected.
- Because most of our contracts do not contain minimum purchase requirements and we sell primarily on a purchase order basis, we are subject to uncertainties and variability in demand by clients, which could decrease revenue materially and adversely affect our financial results.
- The COVID-19 pandemic has adversely affected, and is expected to continue to pose risks, to our business, results of operations, financial condition and cash flows, and other epidemics or outbreaks of infectious diseases may have a similar impact.
- Our business is subject to intense competition.
- Our operating results may fluctuate due to a number of factors, many of which are beyond our control, causing volatility in the price of our common stock.
- The funds held for clients may be subject to credit risk, impairment, misappropriation or theft, and any such incident could result in harm to our clients and damage to our brand.
- A decline in our key business sectors or a reduction in consumer demand generally could have a materially adverse effect on our business.
- We must maintain adequate levels of inventory in order to meet client needs, which presents risks to our financial position and operating results.
- We may have problems raising or accessing capital we need in the future.
- We may encounter problems in our efforts to increase operational efficiencies.

- Loss of essential employees or an inability to recruit and retain personnel could have a significant negative impact on our business.
- We may not be able to identify, manage, complete and integrate acquisitions and achieve anticipated synergies and benefits.
- The Supply Chain business conducts business outside of the U.S., including in Mainland China, which exposes the Company to additional risks not typically associated with companies that operate solely within the U.S.
- The physical or intellectual property of our clients may be damaged, misappropriated, stolen or lost while in our possession, subjecting us to potential litigation and other adverse consequences.
- A significant disruption in, or breach in security of, our technology systems could adversely affect our business.
- Litigation pending against us could materially impact our business and results of operations.

RISKS RELATED TO THE IWCO DIRECT DISPOSAL

- The divestiture of IWCO Direct may not achieve the intended benefits and changes our exposures to other risks and uncertainties.
- Our future results of operations are solely dependent on the operations of our Supply Chain business segment and will differ materially from our previous results.

RISKS RELATED TO TAXATION

- We may be unable to realize the benefits of our net operating loss carry-forwards and other tax benefits (collectively, "NOLs" or "Tax Benefits").
- There may be adverse effects on the value of your investment from our use of the Protective Amendment and Tax Plan.
- We are subject to federal, state and foreign tax audits, which could result in the imposition of liabilities that may or may not have been reserved, and changes in our provision for income taxes.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

- Our failure to maintain compliance with Nasdaq's continued listing requirements could result in the delisting of our common stock.
- SPH Group Holdings LLC and its affiliates own a majority of the voting power of our capital stock and have significant influence over our corporate decisions.
- Members of our Board of Directors also have significant interests in Steel Holdings and its affiliates, which may create conflicts of interest.
- There can be no assurance that the Merger between us and Steel Holdings will be agreed upon, approved and ultimately consummated.
- The Company's possible inability to pay the redemption price of its Series C Convertible Preferred Stock or the effect of such payment on its liquidity could materially adversely impact its liquidity and financial condition.

RISKS RELATED TO OUR INDEBTEDNESS

- Our indebtedness could restrict our operations and make us more vulnerable to adverse economic conditions.
- Changes in reference interest rates could adversely affect our results from operations and financial condition.

GENERAL RISK FACTORS

- An increase in our effective tax rate may adversely impact our results of operations.

Forward-looking statements in this document and those we make from time to time through our senior management are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All forward-looking

statements are necessarily only estimates of future results, and there can be no assurance that actual results will not differ materially from expectations, and, therefore, you are cautioned not to place undue reliance on such statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

ITEM 1.— BUSINESS

Steel Connect, Inc. (the “Company”) is a holding company which operates through its wholly-owned subsidiary, ModusLink Corporation (“ModusLink” or “Supply Chain”). 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.

ModusLink is an end-to-end global supply chain solutions and e-commerce provider serving clients in markets such as consumer electronics, communications, computing, medical devices, software and retail. ModusLink 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, an expansive global footprint and world-class technology. ModusLink 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 in various countries, including numerous sites throughout North America, Europe and Asia.

Disposition of IWCO Direct

On February 25, 2022 (“the Disposal Date”), the Company entered into a transaction agreement (the “Transaction Agreement”) with (a) IWCO Direct Holding Inc. (“IWCO Direct” or “Direct Marketing”) and its indirect subsidiaries, (b) Cerberus Business Finance, LLC, in its capacities as collateral agent and administrative agent under a financing agreement (in such capacities, the “Agent”), dated as of December 15, 2017, between IWCO Direct, IWCO Direct’s direct and indirect subsidiaries, the Agent and the lenders party thereto (the “Lenders”) (the “Financing Agreement”), (c) the Lenders, (d) the Lenders or their respective designees listed on the signature pages to the Transaction Agreement under the caption “Participating Lender Purchasers” (the “Participating Lender Purchasers”), (e) SPH Group Holdings LLC (the “Sponsor”) and (f) Instant Web Holdings, LLC (the “Buyer”), an entity owned by the Participating Lender Purchasers. On the Effective Date (as defined in the Transaction Agreement) and pursuant to the terms of the Transaction Agreement, the Company transferred all of its interests in IWCO Direct to the Buyer as part of a negotiated restructuring of the capital structure and certain financial obligations of IWCO Direct under the Financing Agreement as contemplated by the Transaction Agreement (the entire transaction being referred to as the “IWCO Direct Disposal”). The assets and liabilities and results of operations of the IWCO Direct business are reported as discontinued operations for all periods presented. See Notes 1 and 3 of the accompanying notes to the consolidated financial statements included in Item 8 in this Exhibit for further details regarding the disposition of IWCO Direct.

Proposed Merger with Steel Holdings

On June 12, 2022, the Company, Steel Holdings and SP Merger Sub, Inc., a wholly owned subsidiary of Steel Holdings (“Merger Sub”), entered into an agreement and plan of merger (the “Merger Agreement”), pursuant to which Merger Sub will merge with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly owned subsidiary of Steel Holdings. The Merger Agreement provides that each share of the Company’s common stock issued and outstanding immediately prior to the effective time of the Merger (other than dissenting shares and shares owned by the Company, Steel Holdings or any of their respective subsidiaries) will, subject to the terms and conditions set forth in the Merger Agreement, be converted into the right to receive (i) \$1.35 in cash, without interest and (ii) one contingent value right to receive a pro rata share of the proceeds received by the Company, Steel Holdings or any of their affiliates with respect to the sale, transfer or other disposition of all or any portion of the assets currently owned by ModusLink within two years of the Merger’s closing date, to the extent such proceeds exceed \$80 million plus certain related costs and expenses.

Steel Holdings and certain of its affiliates have also entered into a Voting and Support Agreement pursuant to which, among other things, they have agreed to vote all shares of common stock and Series C Preferred Stock beneficially owned by them in favor of the adoption of the Merger Agreement and the Merger and any alternative acquisition agreement approved by the Company’s Board of Directors (acting on the recommendation of the special committee (the “Special Committee”) of independent and disinterested directors formed to consider and negotiate the terms and conditions of the Merger and to make a recommendation to our Board of Directors).

The closing of the Merger is conditioned upon receipt of approval of the Merger from (i) the holders of a majority in voting power of the outstanding shares of common stock and Series C Preferred Stock of the Company (voting on an as converted to shares of common stock basis), voting together as a single class, (ii) a majority of the outstanding shares of common stock of the Company not owned, directly or indirectly, by Steel Holdings and its affiliates and related parties, and any other officers or directors of the Company, and (iii) the holders of a majority of the outstanding shares of Series C Preferred Stock of the Company, voting as a separate class, as well as other customary closing conditions. Accordingly, there can be no assurance that the Company will be able to complete the Merger on the expected timeline or at all. See “Item 1A. Risk Factors” included in this Report.

Our Board of Directors, acting on the unanimous recommendation of the Special Committee, and the Board of Directors of Steel Partner Holdings GP Inc., the general partner of Steel Holdings, approved the Merger Agreement and the transactions contemplated by the Merger Agreement (such transactions, collectively, the “Transactions”) and resolved to recommend the stockholders adopt the Merger Agreement and approve the Transactions. The Special Committee, which is comprised solely of independent and disinterested directors of the Company who are unaffiliated with Steel Holdings, exclusively negotiated the terms of the Merger Agreement with Steel Holdings, with the assistance of its independent financial and legal advisors.

Subject to the satisfaction of all of the conditions to closing, including the receipt of the separate stockholder approvals, the Merger is expected to close in the last calendar quarter of 2022.

See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Proposed Merger with Steel Holdings” of this Report for further details regarding the proposed merger with Steel Holdings.

ModusLink's Services

ModusLink's revenue primarily comes from sales of adaptive supply chain services to its clients. Among ModusLink's core supply chain services are packaging, kitting & assembly, fulfillment, digital commerce and reverse logistics.

Packaging, Kitting & Assembly—These services center on developing and executing a strategy that has product configuration and packaging done at the optimal time, and for the greatest strategic benefit. With sites located in the Americas, the Asia-Pacific region and Europe, ModusLink affords manufacturers just-in-time flexibility. Options with this service include the ability to delay product/order configuration until the order fulfillment stage, and using the facilities closest to a client's customers. In addition, ModusLink's light manufacturing services cover the final assembly of components and parts into finished goods, including build-to-order customization. ModusLink also offers additional value-added processes such as product testing, radio frequency identification tagging, product or service activation, language settings, personalization, and engraving and multi-channel packaging and packaging design.

Fulfillment—ModusLink's Fulfillment Services are highly integrated and supported by a best-of-breed technology infrastructure to enable clients to quickly increase efficiency and reduce costs. It has deep experience and is exceptionally skilled at handling the fulfillment requirements of multiple channels, be they manufacturing sites, distribution centers, retail operations or individual consumers dispersed across the globe. ModusLink is equally strong in adapting to the needs of retail/B2B or B2C product movement with respect to bringing product to market, including order management, pick, pack and ship, retail compliance and demand planning services, which are integral components of ModusLink's Fulfillment Services. In addition, ModusLink can help optimize component and finished goods inventory levels for better efficiency and cost savings. Clients also look to ModusLink for the physical programming of digital content—such as software, firmware, upgrades or promotional material—onto numerous types of flash media, including SD and MicroSD cards, USB drives, navigation systems, smartphones and tablets. This programming includes content protection and activation options, as well as full IP security. As direct-to-consumer volumes increase, ModusLink is able to provide a customer experience that can further enhance a brand's relationship with consumers.

Digital Commerce—ModusLink's Digital Commerce Services are based on ModusLink's cloud-based e-commerce platform. These e-Business services remove the complexities and risk of a global web store, optimizing each stage of the online buying experience so that products can be quickly and easily purchased, serviced and delivered anywhere in the world. This end-to-end approach is fully integrated with global payment, customer relationship management (CRM) and fulfillment systems, helping clients to quickly and easily expand into a new region and country. In addition, if a client needs help in managing and optimizing its commerce solution once established, ModusLink can support that too. By leveraging ModusLink's e-commerce partnerships with Intershop and Shopify, clients can better meet revenue goals, drive growth and build their brands around the globe. Integration with either partner provides clients with a single, comprehensive view of their customers at every stage of their relationships. ModusLink can also manage the installation,

integration and all technical operations for an online store, so a client can dedicate time and resources to its core business. By being able to adapt to their digital commerce and supply chain needs, ModusLink can help clients reach new markets, optimize order processing and customer service, reduce costs, and increase margins and flexibility without having to invest in their own infrastructure and personnel.

Reverse Logistics—ModusLink's Reverse Logistics Services simplify the returns process for retailers and manufacturers that want to improve service parts management and the value of returned assets. ModusLink manages the end-to-end process, including receipt, RMA, sorting, triage, credit processing and ultimate disposition of the returned product. Its approach to reverse logistics employs a modular global system that combines existing and new supply chain solutions, so clients can gain actionable insight into their reverse supply chains, which leads to reduced costs and increased customer service and satisfaction levels.

ModusLink's business solutions integrate with other supply chain service providers such as contract manufacturing companies and transportation providers.

Reportable Segments

Subsequent to the Company's disposition of the Direct Marketing reportable segment with the IWCO Direct, the Company has one reportable segment: Supply Chain. 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 reportable segments. Certain reportable segment information, including revenue, profit (loss) and asset information, is set forth in Note 21 of the accompanying notes to consolidated financial statements included in Item 8 in this Report and in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Technology Infrastructure

ModusLink's information technology systems and infrastructure serve as the backbone of a client's fully integrated global supply chain services and manages the flow and use of physical assets and information. ModusLink offers a secure and redundant operating environment to ensure the integrity and privacy of its clients' data. ModusLink works with clients to integrate data, tools and applications to deliver an optimized solution that meets its clients' business needs and improves management of the global supply chain. ModusLink's ERP system is designed to provide the visibility and control needed for better decision making, rapid response to global market dynamics and effective asset utilization across services and geographies.

Competition

The market for the supply chain management service offerings provided by ModusLink is highly competitive. As a provider with service offerings covering a range of supply chain operations and activities across the globe, ModusLink competes with different companies depending on the type of service it is providing or the geographic area in which an activity is taking place. ModusLink faces competition from Electronics Manufacturing Services/Contract Manufacturers (EMS/CM), third party logistics (3PL) providers, Supply Chain Management (SCM) companies and regional specialty companies. For certain digital commerce services, ModusLink's competition includes global outsource providers, software as a service (SaaS) providers, technology providers and computer software providers offering content and document management solutions. As a provider of an outsourcing solution, ModusLink's competition also includes current and prospective clients, who evaluate ModusLink's capabilities in light of their own capabilities and cost structures.

The Company believes that the principal competitive factors in its market are quality and range of solutions and services, technological capabilities, costs, location of facilities, responsiveness and adaptability. With ModusLink's set of supply chain services, global footprint, strong client service acumen and its integrated global supply chain digital commerce services, the Company believes that it is well positioned to compete in each of the markets it serves, while expanding across various industry subsets. For more information, see "Item 1A. Risk Factors—Risks Related to Our Business, Operations and Industry—Our business is subject to intense competition."

Clients

A limited number of clients account for a significant percentage of the Company's consolidated net revenue. For the fiscal years ended July 31, 2022 and 2021, the Company's 10 largest clients accounted for approximately 78% and 81% of consolidated net revenue, respectively. Two clients accounted for 31% and 12% of the Company's consolidated net revenue for

the fiscal years ended July 31, 2022, and one client accounted for 42% of the Company's consolidated net revenue for the fiscal year ended July 31, 2021. No other clients accounted for greater than 10% of the Company's consolidated net revenue for the fiscal years ended July 31, 2022 and 2021. In general, the Company does not have many agreements which obligate any client to buy a material amount of services from the Company, or which designate the Company as its sole supplier of any particular services. The Company sells its services to its clients primarily on a purchase order basis, which is subject to demand variability. As such, the loss of a significant amount of business or program with any key client could have a material adverse effect on the Company. The Company believes that it will continue to derive a majority of its consolidated operating revenue from sales to a small number of clients.

There can be no assurance that revenue from key clients will not decline in future periods.

Resources

The Company purchases and maintains adequate levels of inventory in order to meet client needs on a timely basis. The Company has no guaranteed price, quantity or delivery agreements with its suppliers. Because of the diversity of its services, as well as the wide geographic dispersion of its facilities, the Company uses numerous sources for the wide variety of raw materials needed for its operations.

The Company relies upon a combination of patent, trade secret, copyright and trademark laws to protect our intellectual property. From time to time, we develop new trade secrets and other intellectual property or obtain intellectual property through acquisition activities. Our businesses are not substantially dependent on any single or group of patents, trademarks, copyrights or licenses.

International Operations

In addition to its North American operations, ModusLink conducts business in several countries, including Mainland China, the Czech Republic, the Netherlands, Ireland and Singapore, among others. During the years ended July 31, 2022 and 2021, net revenues from our foreign operations accounted for approximately 75% and 73% of total net revenues respectively.

The Company's international operations increase its exposure to U.S. and foreign laws, regulations and labor practices, which are often complex and subject to variation and unexpected changes with which the Company must comply. A substantial portion of our international business is conducted in Mainland China, where we face (i) the challenge of navigating a complex set of licensing and tax requirements and restrictions affecting the conduct of business in Mainland China by foreign companies, (ii) potential limitations on the repatriation of cash, (iii) and foreign currency fluctuation. For more information, see "Item 1A. Risk Factors—Risks Related to Our Business, Operations and Industry—The Supply Chain business conducts business outside of the U.S., which may expose the Company to additional risks not typically associated with companies that operate solely in the U.S."

Human Capital Management

Steel Connect's approximately 1,100 employees worldwide represent our most important asset. We are committed to creating workplace environments that are ethical, diverse, inclusive, and just, which go beyond simply complying with workplace laws.

Human capital management is a key driver of the Company's success, and we are committed to a work environment in which everyone is treated fairly with dignity and respect. This is supported by our Code of Business Conduct and Ethics, which establishes the baseline requirements of our integrity and compliance program. Our core values are Teamwork, Respect, Integrity and Commitment. By embracing these core values, the Company strives to create an environment where its employees can all be productive, innovative and true to themselves.

The following programs are crucial to support and work to improve the Company's workplace environment:

- **Steel Grow Program:** The Company participates in the Steel Grow initiative which: (1) formalizes employee development throughout the Company with the goal of identifying its high performing employees and (2) recruits, retains and rewards the best talent available for the Company, in each case, without discrimination or harassment on the basis of race, color, religion, age, gender, gender identity, sexual orientation, national origin, citizenship, disability, marital status, pregnancy (including unlawful discrimination on the basis of a legally protected pregnancy/maternity leave), veteran status, genetic information or any other characteristic protected by law. Management is committed to promoting from within when the opportunity is right for the employee and the Company.

- **Diversity, Equity and Inclusion Program:** In 2020, we conducted a comprehensive Diversity, Equity and Inclusion review in the U.S. with and subsequently launched a comprehensive global plan in the second half of calendar 2021. Guided by our core values, we are committed to creating a company where everyone is included and respected, and where we support each other in reaching our full potential individually and as a company.
- **Steel Wellness Council:** Our Steel Wellness Council, with representatives from all our businesses, focuses on sharing best practices that maximize the overall wellness of employees, empowering them to help create positive change in communities where we work and live. Our initiatives include mental, physical and financial well-being along with healthcare education and community support. Community support includes using our coaching system to enhance the education of our employees who coach and lead children in our communities.
- **Steel Environmental Health and Safety Council:** The Steel Environmental Health and Safety Council is comprised of the health and safety teams at the Company's affiliate companies and representatives from the legal and human resources departments who are dedicated to the safety of our people.

Employee Safety and Well-Being

The COVID-19 pandemic continues to impact lives and businesses worldwide, and the Company continues to take actions to ensure its employees' health and safety. Many of our office workers continue to telecommute; however, where our workers continue at our facilities, the Company has established a number of safety protocols as situations and local requirements dictate. Our COVID-19 Task Force meets regularly to share good practices and create risk mitigation plans and resource guides to safeguard our employees and their families.

Our Information

Under the Exchange Act, we are required to file with or furnish to the Securities and Exchange Commission ("SEC") annual, quarterly and current reports, proxy and information statements and other information. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The Company's common shares are listed on the Nasdaq Capital Market under the symbol "STCN." Our business address is 2000 Midway Lane, Smyrna, Tennessee 37167, and our telephone number is (914) 461-1276. The Company's internet website is www.steelconnectinc.com. The Company makes available, free of charge, through its Internet website, the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, directors and officers Forms 3, 4 and 5, and amendments to those reports, as soon as reasonably practicable after electronically filing such materials with, or furnishing them to, the SEC. The Company may use its website as a distribution channel of material company information. Financial and other important information regarding the Company is routinely posted on and accessible through the Company's website. Information contained on the Company's website is not included as part of, or incorporated by reference into, this Report.

ITEM 1A.— RISK FACTORS

Our businesses are subject to a number of risks. You should carefully consider the following risk factors, together with all of the other information included or incorporated by reference in this Report, before you decide whether to purchase our common stock. These factors are not intended to represent a complete list of the general or specific risks that may affect us. It should be recognized that other risks may be significant, presently or in the future, and the risks set forth below may affect us to a greater extent than indicated. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS, OPERATIONS AND INDUSTRY

Changes in our relationships with significant clients, including the loss or reduction in business from one or more of them, could have a material adverse impact on our business.

We depend on a small number of clients for a substantial portion of our business. For the fiscal years ended July 31, 2022 and 2021, the Company's 10 largest clients accounted for approximately 78% and 81% of consolidated net revenue from

continuing operations, respectively. Two customers accounted for approximately 31% and 12% of the Company's consolidated net revenue from continuing operations for the fiscal year ended July 31, 2022, and one customer accounted for 42% of the Company's consolidated net revenue from continuing operations for the fiscal year ended July 31, 2021. No other clients accounted for greater than 10% of the Company's consolidated net revenue from continuing operations for the fiscal year ended July 31, 2022 and 2021.

In general, the Company does not have any agreements which obligate any client to buy a material amount of services from it or designate it as an exclusive service provider. Consequently, the Company's net revenue is subject to demand variability by our clients. The level and timing of orders placed by the Company's clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. Changes in relationships with significant clients may require us to evaluate our other long-lived assets for impairment, which may require us to record an impairment charge. Decreases in client demand or volumes or loss of business from one or more of these clients could have a materially adverse impact on our businesses, financial condition or results from operations. For more information, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies."

If the demand for supply chain management services decline, or if we are unable or do not effectively integrate new or emerging marketing industry trends into our services and offerings, our revenue and results of operations could be adversely affected.

Customer traffic and demand for our supply chain management services may be influenced by changing consumer demands and industry trends. Some of our competitors may expend more for their marketing programs than we do, or use different approaches than we do, which may provide them with a competitive advantage. Furthermore, we may not effectively develop or implement strategies with respect to rapidly evolving industry trends, including outsourcing supply chain management services, among other business practices. If our marketing efforts are not as successful or cost-effective as anticipated, our revenue and results of operations could be adversely affected.

We may have difficulty achieving and sustaining operating profitability, and if that depletes our working capital balances, our business could be materially and adversely affected.

For the fiscal years ended July 31, 2022 and 2021, we reported an operating income of \$1.2 million from continuing operations, and an operating loss from continuing operations of \$1.6 million, respectively. We anticipate that we will continue to incur significant fixed operating expenses in the future within both cost of revenue and selling, general and administrative expenses. Therefore, since our revenue is subject to fluctuations, there can be no assurance that we will sustain operating income in the future. We may also use significant amounts of cash in an effort to increase the efficiency and profitability of our business. If we are unable to achieve or sustain operating profitability, we risk depleting our working capital balances, and our business could be materially adversely affected.

Because most of our contracts do not contain minimum purchase requirements and we sell primarily on a purchase order basis, we are subject to uncertainties and variability in demand by clients, which could decrease revenue materially and adversely affect our financial results.

Our contracts generally do not include material minimum purchase requirements, and we sell primarily on a purchase order basis. Therefore, our sales are subject to unpredictable variability by our clients and have fluctuated historically. These fluctuations may continue, sometimes materially, from year to year and even from quarter to quarter. The level and timing of orders placed by these clients vary for a variety of reasons, including seasonal buying by end-users of Supply Chain customers, as well as individual client strategies, the introduction of new technologies, the desire of our clients to reduce their exposure to any single supplier and general economic conditions impacting our Supply Chain segment. If we are unable to anticipate and respond to the demands of our clients, we may lose clients because we have an inadequate supply of their products or insufficient capacity at our sites, or alternatively, we may have excess inventory or excess capacity, either of which may have a materially adverse effect on our business, financial position and operating results.

The COVID-19 pandemic has adversely affected, and is expected to continue to pose risks, to our business, results of operations, financial condition and cash flows, and other epidemics or outbreaks of infectious diseases may have a similar impact.

The ongoing COVID-19 pandemic (in particular, the emergence of new variants of the virus across the globe) has caused, and continues to cause, significant disruptions in the U.S. and global economies. For example, national and local governments in the United States and around the world continue to implement measures to prevent the spread of COVID-19 and its variants, including travel bans, prohibitions on group events and gatherings, shutdowns of certain businesses, quarantines, curfews, and recommendations to practice physical distancing. Such measures have restricted and continue to

restrict individuals' daily activities and curtail or cease many businesses' normal operations. The COVID-19 pandemic has adversely impacted, and is likely to further adversely impact, nearly all aspects of our business and markets, including our workforce and the operations of our clients, suppliers, and business partners. Beginning in March 2020, when the World Health Organization categorized COVID-19 as a pandemic and the President of the United States declared the COVID-19 outbreak a national emergency, we experienced impacts to our customers' demand, facility operations, supply chain, availability and productivity of personnel, while also working to comply with rapidly evolving international, federal, state and local restrictions and recommendations on travel and workplace health and safety. We experienced disruptions to our business continuity as a result of temporary closures of certain of ModusLink's facilities in the third and fourth quarters of fiscal year 2020, as well as the four quarters of fiscal year 2021. However, these temporary closures did not have a significant impact on ModusLink's operations.

An outbreak in Mainland China forced temporary lockdown orders from March 14, 2022 to March 20, 2022 in several cities in which ModusLink operates. In April and May 2022, there were further temporary lockdown orders which impacted several ModusLink facilities in China; however, ModusLink was able to resume operations on May 5, 2022 at one site and at another site on May 31, 2022. In July 2022, there were further temporary lockdown orders which impacted one ModusLink facility in China. In September and October 2022, there were further temporary lockdown order which impacted several ModusLink facilities in China. These temporary closures did not have a significant impact on ModusLink's operations.

Against the background of the reduction in IWCO Direct's business, we held extensive discussions with Cerberus about amending and extending IWCO Direct's credit facility with Cerberus under which there was approximately \$361.0 million outstanding as of January 31, 2022 that was to mature in December 2022. These discussions ultimately resulted in the IWCO Direct Disposal. For more information, see Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Disposition of IWCO Direct."

The Company's results of operations, including sales volume, were adversely affected by COVID-19 during the years ended July 31, 2022 and 2021. The COVID-19 pandemic or other epidemics or outbreaks of infectious diseases could materially adversely impact the Company's results of operations, financial condition and liquidity in several ways. In particular, the continued spread of COVID-19 and efforts to contain the virus could:

- impair the Company's ability to manage day-to-day service and product delivery;
- continue to impact customer demand of our businesses' products and services;
- cause disruptions in or closures of the Company's operations or those of its customers and suppliers (as of the filing of this annual report on Form 10-K, all of the Company's facilities were open and able to operate at or near normal capacities);
- impact global liquidity and the availability of capital;
- cause the Company to experience an increase in costs as a result of the Company's emergency measures, delayed payments from customers and uncollectible accounts;
- cause delays and disruptions in the supply chain resulting in disruptions in the commercial operation of our businesses;
- cause limitations on the Company's employees' ability to work and travel;
- impact availability of qualified personnel;
- increase cybersecurity risks as remote working environments may be less secure and more susceptible to hacking attacks, including phishing and social engineering attempts that seek to exploit the COVID-19 pandemic; and
- cause other unpredictable events.

As the situation surrounding COVID-19 remains fluid, it is difficult to predict the duration of the pandemic and the impact on the Company's business, operations, financial condition and cash flows. The severity of the impact on the Company's business in fiscal 2023 will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic (including the advent of variants and the impact of vaccination on infection and hospitalization rates), the extent and severity of the impact on the Company's customers and suppliers, the continued disruption to the manufacturing of and demand for our businesses' products and services, the effect of federal, state or local regulations regarding safety measures to address the spread of COVID-19, and the impact of the global business and economic environment on liquidity and the availability of capital, all of which are uncertain and cannot be predicted. Due to the evolving and uncertain nature of this event, the Company cannot predict at this time the full extent to which the COVID-19 pandemic will adversely impact the Company's business, results and financial condition, which will depend on many factors that are not known at this time. The Company is staying in close communication with its employees, customers and suppliers, and acting to mitigate the impact of this dynamic and evolving situation, but there is no guarantee the Company will be able to do so.

Our business is subject to intense competition.

The markets for our services are highly competitive and often lack significant barriers to entry enabling new businesses to enter these markets relatively easily. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with our offerings. The market for supply chain management products and services, is very competitive, and the intensity of the competition is expected to continue to increase. For more information, see “Part I, Item 1. Business—Competition.” Any failure to maintain and enhance our competitive position would limit our ability to maintain and increase market share, which could result in serious harm to our business. Increased competition may also result in price reductions, reduced gross margins and loss of market share. In addition, many of our current and potential competitors will continue to have greater financial, technical, operational and marketing resources. We may not be able to compete successfully against these competitors. Competitive pressures may also force prices for our products and services down, and these price reductions may reduce our revenue. The competition we face may also increase as a result of consolidation within the supply chain management and logistics industry. For example, if as a result of consolidation, our competitors are able to obtain more favorable terms from their suppliers, offer more comprehensive services to their customers, or otherwise take actions that increase their competitive strengths, our competitive position and therefore our business, results of operations and financial condition may be materially adversely affected.

Our operating results may fluctuate due to a number of factors, many of which are beyond our control, causing volatility in the price of our common stock.

Our annual and quarterly operating results have fluctuated widely during the last several years and may continue to fluctuate due to a number of factors, including:

- how well we execute on our overall strategy and operating plans;
- implementation of our strategic initiatives and achievement of expected results of these initiatives;
- demand for our services;
- consumer confidence and demand;
- specific economic conditions in the industries in which we compete;
- competitive disruptions or innovations affecting the services or products we provide;
- general economic and financial market conditions, such as the impacts of inflation, slower growth or a recession;
- timing of new product introductions or software releases by our clients or their competitors;
- payment of costs associated with our acquisitions, sales of assets and investments;
- market acceptance of new products and services;
- seasonality;
- temporary shortages in supply from vendors;
- charges for impairment of long-lived assets, including restructuring in future periods;
- political instability, including changes in tariff laws or natural disasters in the countries in which we operate;
- actual events, circumstances, outcomes and amounts differing from judgments, assumptions and estimates reflected in our accompanying consolidated financial statements;
- changes in accounting rules;
- changes in tax rules and regulations;
- changes in labor laws;
- availability of labor resources and the variability of available rates for labor resources;
- unionization of our labor and contract labor; and
- implementation of automation.

We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful or indicative of our future performance. In some fiscal quarters, our operating results may be below the expectations of securities analysts and investors, which may cause the price of our common stock to decline, severely impairing or eliminating the value of your investment. In addition, the stock markets have experienced extreme price and volume fluctuations. Broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. Technical factors in the public trading market for our common stock may produce price movements that may or may not comport with macro, industry or company-specific fundamentals, including, without limitation, the sentiment of retail investors (including as may be expressed on financial trading and other social media sites), the amount and status of short interest in our securities, access to margin debt, trading in options and other derivatives on our common stock and any related hedging or other technical trading factors. In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation has often been instituted against that company. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business, results of operations, financial condition and cash flows and may cause a significant increase in the premium paid for our directors and officers insurance.

The funds held for clients may be subject to credit risk, impairment, misappropriation or theft, and any such incident could result in harm to our clients and damage to our brand.

In the normal course of our business, we, at times, collect, process and/or retain client funds. The client funds are maintained at financial institutions both internationally and domestically, and the balances associated with these funds are at times without or in excess of federally insurable limits. Because such funds may not be fully protected, they could be vulnerable to external or internal unauthorized access or use, which may cause such funds to be impaired, misappropriated or stolen. Any impairment, misappropriation or theft of client funds could damage our reputation, expose us to mitigation costs and the risks of private litigation and government enforcement, disrupt our business and otherwise have a materially adverse effect on our business, sales and results of operations. In addition, our failure to respond quickly and appropriately to any impairment, misappropriation or theft of client funds could exacerbate the consequences to the client and to our business, as well as increase the time or cost necessary to mitigate or resolve the issue.

A decline in our key business sectors or a reduction in consumer demand generally could have a materially adverse effect on our business.

A large portion of our Supply Chain business revenue comes from clients in the technology and consumer products sectors, which is intensely competitive and subject to rapid changes. A reduction or interruption in supply, including disruptions on our global supply chain as a result of the COVID-19 pandemic or a significant natural disaster (including as a result of climate change) or from supply chain issues, a failure to appropriately cancel, reschedule, or adjust our requirements based on our business needs, or a decrease in demand for our services could materially adversely affect our business, operating results, and financial condition and could materially damage customer relationships. There is currently a market shortage of semiconductor and other electrical component supplies, which has affected, and could further affect, our Supply Chain clients in the computing and consumer electrical markets and, consequently, their demand for our offerings. We expect these supply chain challenges to continue through at least the first half of fiscal 2023 and potentially into the second half of fiscal 2023 or later. During periods of component shortages for our clients, we may also encounter reduced client demand, and accordingly, our revenue and profitability could suffer until other component sources can be developed.

We must maintain adequate levels of inventory in order to meet client needs, which presents risks to our financial position and operating results.

We must purchase and maintain adequate levels of inventory in order to meet client needs on a timely basis. The markets, including the technology sector served by many of our clients, are subject to rapid technological change, new and enhanced product specification requirements and evolving industry standards. These changes may cause inventory on hand to decline substantially in value or to rapidly become obsolete. The majority of our clients in the Supply Chain business offer protection from the loss in value of inventory. However, our clients may become unable or unwilling to fulfill their protection obligations, and the inability of our clients to do so could lower our gross margins and cause us to record inventory write-downs. If we are unable to manage the inventory on hand with our clients with a high degree of precision, we may have insufficient product supplies to meet demand or we may have excess inventory, resulting in inventory write-downs, which may harm our business, financial position and operating results.

Our ability to obtain particular products or components in the quantities required to fulfill client orders on a timely basis is critical to our success. We have no guaranteed price or delivery agreements with our suppliers. We may occasionally experience a supply shortage of some products as a result of strong demand or problems experienced by our suppliers. If shortages or delays persist, the price of those products may increase, or the products may not be available at all. Accordingly, an inability to secure and maintain an adequate supply of products, packaging materials or components to fulfill our client orders on a timely basis, or a failure to meet clients' expectations, could result in lost revenue, lower client satisfaction, negative perceptions in the marketplace, potential claims for damages and have a material adverse effect on our business.

We may have problems raising or accessing capital we need in the future.

In recent years, we have financed our operations and met our capital requirements primarily through funds generated from operations, the sale of our securities, borrowings from lending institutions and sale of Company owned facilities that were not being fully utilized. These funding sources may not be sufficient in the future and we may need to obtain additional funding from outside sources; however, we may not be able to obtain such funding. In addition, even if we obtain outside funding sources, we may be required to issue to those outside sources securities with greater rights than those currently possessed by holders of our common stock. We may also be required to take other actions, which may lessen the value of our common stock or dilute our common stockholders, including borrowing money on terms that are not favorable to us or issuing additional shares of common stock. If we experience difficulties raising needed capital in the future, our business could be materially adversely affected.

In addition, market and other conditions largely beyond our control may affect our ability to engage in future sales of our securities, the timing of any such sales and the amount of proceeds we receive. Even if we are able to sell our securities in the future, we may not be able to sell at favorable prices or on favorable terms. As long as our public float is less than \$75 million, we will be limited in selling our securities on a short-form registration statement on Form S-3 to offerings that do not exceed one-third of our public float in a rolling 12-month period. Therefore, the process of raising capital to support our growth may be more expensive and time consuming, including the use of a registration statement on Form S-1, and the terms of any offering transaction may not be as favorable as they would have been if we were eligible to use Form S-3 without these restrictions. In addition to entailing increased capital costs, any such transactions could result in substantial dilution of our stockholders' interests, transfer control to a new investor and/or diminish the value of an investment in our common stock.

We may also need to pursue strategic transactions, such as joint ventures, private placements or the sale of our business or all or substantially all of our assets. These private financings and strategic transactions could in the future require significant management attention, disrupt our business, adversely affect our financial results, be unsuccessful or fail to achieve the desired results. We are in discussions from time to time with such possible sources of additional funding.

If financial institutions that have extended credit commitments to us are adversely affected by the conditions of the U.S. and international capital markets, they may become unable to fund borrowings under their credit commitments to us, which could have an adverse impact on our ability to borrow funds, if needed, for working capital, capital expenditures, acquisitions and other corporate purposes.

We may encounter problems in our efforts to increase operational efficiencies.

Because the markets in which we operate are highly competitive, we continue to seek to identify ways to increase efficiencies and productivity and effect cost savings. Our Supply Chain business (currently our only business) is continually employing programs to achieve efficiencies, which include investment in capital equipment and automation. We cannot assure you that these projects and capital investments will result in the realization of the expected benefits that we anticipate in a timely manner or at all. We may encounter problems with these projects that will divert the attention of management and/or result in additional costs and unforeseen project delays. If we, or these projects, do not achieve expected results, our business, financial position and operating results may be materially and adversely affected. In addition to already undertaken projects in our Supply Chain business designed to increase our operational efficiencies, including the standardization to a global solutions platform through an integrated ERP system and the implementation of a model utilizing centralized "hub" locations to service multiple "spoke" locations across the Americas, Asia and Europe regions, our executive team is continuing its review across the organization designed to improve our operations.

Loss of essential employees or an inability to recruit and retain personnel could have a significant negative impact on our business.

Our success is largely dependent on the skills, experience, and efforts of the management and other employees of our Supply Chain business (currently our only business). The loss of the services of one or more members of our senior management or of numerous employees with essential skills could have a negative effect on our business, financial condition and results of operations. If we are not able to retain or attract talented, committed individuals to fill vacant positions when needs arise, it may adversely affect our ability to achieve our business objectives. We do not currently maintain "key persons" insurance on our senior management. Labor market conditions may have an adverse impact on profitability and ability to deliver product on time. Any material increases in employee turnover rates could also have a material adverse effect on our business, financial condition and results of operations.

We may not be able to identify, manage, complete and integrate acquisitions and achieve anticipated synergies and benefits.

While we have not made any acquisitions recently, part of our business strategy historically has been to acquire businesses that we believe can complement our current business activities, both financially and strategically. Acquisitions involve many complexities and inherent risk, including, but not limited to: failure to achieve all or any projected synergies or other intended benefits of the acquisition; failure to integrate the purchased operations, technologies, products or services; substantial unanticipated integration costs; loss of key employees, including those of the acquired business; additional debt and/or assumption of unknown liabilities; loss of customers; and the impact on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002. As a result, 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.

We conduct business outside of the U.S., which exposes the Company to additional risks not typically associated with companies that operate solely within the U.S.

The majority of the operations of our Supply Chain business (currently our only business) are in foreign countries, including Mainland China, the Netherlands, the Czech Republic, Ireland and Singapore. These operations have additional risks, including currency exchange, foreign exchange controls, difficulties and limitations on the repatriation of cash, less developed or efficient financial markets than in the U.S., absence of uniform accounting, auditing and financial reporting standards, differences in the legal and regulatory environment, different publicly available information in respect of companies in non-U.S. markets, pressure on the creditworthiness of sovereign nations where we have customers and a balance of cash and marketable securities, different or lesser protection of our intellectual property, including increased risk of theft of our proprietary technology and other intellectual property and possible imposition of non-U.S. taxes.

We also face risks related to compliance with international and U.S. laws and regulations applicable to our international operations. These laws and regulations include data privacy requirements, labor relations laws, tax laws, anti-competition regulations, import and trade restrictions foreign exchange controls, U.S. laws such as export control laws, economic sanctions laws, and the Foreign Corrupt Practices Act, and similar laws in other countries, which also prohibit certain activities including corrupt payments to governmental officials or certain payments or remunerations to customers. Given the high level of complexity of these laws, there is a risk that some provisions may be inadvertently breached. Also, we may be held liable for actions taken by our local partners. Violations of these laws and regulations could result in fines, criminal penalties against us, our officers or our employees, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to offer our products and services in one or more countries.

Certain geopolitical factors may also affect our operations internationally, including:

- liquidity issues or political actions by sovereign nations, including nations with a controlled currency environment, which could result in decreased values of these balances or potential difficulties protecting our foreign assets or satisfying local obligations;
- impacts of or uncertainties regarding the United Kingdom's exit from the EU ("Brexit") on regulations, currencies, taxes and operations, including possible disruptions to the sale of our services or the movement of our people between the United Kingdom, EU and other locations;
- uncertainty regarding the imposition of and changes in the United States' and other governments' trade regulations, trade wars, tariffs, other restrictions or other geopolitical events, including the evolving relations between the United States and China, the United States and Russia and the recent Russian invasion of Ukraine;
- changes in the public perception of governments in the regions where we operate or plan to operate; and
- regional economic and political conditions.

Any of these factors could negatively impact our business and results of operations. The above factors may also negatively impact our ability to successfully expand into emerging market countries, where we have little or no operating experience, where it can be costly and challenging to establish and maintain operations, including hiring and managing required personnel, and difficult to promote our brand, and where we may not benefit from any first-to-market advantage or otherwise succeed.

Our business in Mainland China faces specific risks.

Our Supply Chain business (currently our only business) faces certain specific risks relating to operations in Mainland China and its complex and unpredictable political, economic and legal environment. Foreign businesses must navigate a complex set of licensing and tax requirements and restrictions affecting their conduct of business in Mainland China, and the Chinese government may in the future adopt additional measures favoring local businesses that make it more difficult for foreign businesses to operate on an equal footing. From time to time, the Chinese government also implements various corrective measures, including, but not limited to, controls on credit or prices and currency restrictions, to regulate growth and inflation. These and any other measures could adversely affect our ability to operate in Mainland China and/or inhibit economic activity in China and thereby harm the market for our products and services.

In addition, as China's legal system continues to evolve, the interpretation and enforcement of many laws, regulations and rules involve significant uncertainties, including with respect to intellectual property protection. Any third parties we rely on in Mainland China may disclose our or our clients' confidential information or intellectual property to competitors or third parties, which could result in the illegal distribution and sale of counterfeit versions of our products. The legal protections and remedies available in the event of any claims or disputes may be limited and any litigation in Mainland China may be protracted and result in substantial costs and diversion of resources and management attention.

Moreover, our ability to operate in Mainland China may be adversely affected by changes in U.S. and Chinese laws and regulations, such as those related to, among other things, international trade, taxation, intellectual property, currency controls, network security, employee benefits and other matters. For more information on the effect of ongoing government-imposed lockdowns in China on our operations there, see “—The COVID-19 pandemic has adversely affected, and is expected to continue to pose risks, to our business, results of operations, financial condition and cash flows, and other epidemics or outbreaks of infectious diseases may have a similar impact.” Additionally, the U.S. administration has advocated greater restrictions on trade generally and significant increases on tariffs on certain goods imported into the United States, particularly from Mainland China and has taken steps toward restricting trade in certain goods. China and other countries have retaliated in response to new trade policies, treaties and tariffs implemented by the United States. China has imposed significant tariffs on U.S. imports since 2018. Such trade escalations have had, and may continue to have, an adverse effect on manufacturing and trade levels and specifically, may cause an increase in the cost of goods exported from Asia Pacific and the risks associated with exporting goods from the region. If any of these events occur, our business, financial condition and results of operations could be materially and adversely affected.

The physical or intellectual property of our clients may be damaged, misappropriated, stolen or lost while in our possession, subjecting us to potential litigation and other adverse consequences.

In the course of providing supply chain management services to our clients, we often have possession of or access to their physical and intellectual property, including consigned inventory, databases, software masters, certificates of authenticity and similar valuable physical or intellectual property. If this physical or intellectual property is damaged, misappropriated, stolen or lost, we could suffer the following harmful consequences: claims under client agreements or applicable law, or other liability for damages; delayed or lost revenue due to adverse client reaction; negative publicity; and litigation that could be costly and time consuming and which may not be reimbursable by third party insurance coverages.

A significant disruption in, or breach in security of, our technology systems could adversely affect our business.

We rely on information and operational technology systems in the conduct of our business to process, transmit and store electronic information, and to manage or support a variety of critical business processes and activities. In some cases, we may rely upon third-party providers of hosting, support and other services to meet our information technology requirements. We also collect and store sensitive data, including confidential business information and personal data. Upgrading our information technology systems is costly and subject to delay, and there is no assurance new systems will provide the benefits expected. We may also experience operational problems attributable to the installation, implementation, integration, performance, features or functionality of third-party software, systems and services.

In addition, our information and operational technology systems are subject to disruption, damage or failure from a variety of sources, including, without limitation, computer viruses, worms or other malicious software programs, security breaches, cyber-attacks, natural disasters, defects in design, employee malfeasance, and human or technological errors. Cybersecurity incidents in particular are evolving and include, but are not limited to, use of malicious software, attempts to gain unauthorized access to data or control of automated production systems, and other security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and the corruption of data. Various procedures and controls to monitor, deter and mitigate these threats have been implemented. However, given the unpredictability of the timing, nature and scope of technology security incidents and disruptions, our businesses could potentially be subject to production downtimes, operational delays, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, theft, other manipulation or improper use of our systems and networks or financial losses from remedial actions, any of which could have a material adverse effect on our competitive position, financial condition, reputation or results of operations. We have experienced and expect to continue to experience actual or attempted cyber-attacks of our information technology systems or networks, yet none of these actual or attempted cyber-attacks has had a material effect on our operations or financial condition. Further, any failure by our hosting and support partners or other third-party service providers in the performance of their services could materially harm our business. While we try to maintain cybersecurity insurance coverage that we believe is adequate for our business, such coverage may not cover all potential costs and expenses associated with any security incidents that may occur or may not be available at a reasonable cost in the marketplace in the future.

A breach of our information technology systems could also result in the misappropriation of intellectual property, business plans or trade secrets. Any failure of our systems or those of our third-party service providers could result in unauthorized access or acquisition of proprietary information. Any actual or perceived security breach could cause significant damage to our reputation, expose us to liability or regulatory enforcement action and adversely impact our relationships with our customers or vendors. Additionally, while our security systems are designed to maintain the physical security of our facilities and information systems, accidental or willful security breaches or other unauthorized access by third parties to our facilities or our information systems could lead to misappropriation of proprietary and confidential information.

If any person, including any of our employees or those with whom we share such information, negligently disregards or intentionally breaches our established controls with respect to our client, customer or employee data, or otherwise mismanages or misappropriates that data, we could be subject to significant monetary damages, litigation, regulatory enforcement actions, fines and/or criminal prosecution in one or more jurisdictions. State and federal laws may also require us to provide notice to affected individuals if their personal data is the subject of a security breach, which would impose costs and could lead to additional liability and negative publicity.

We take cybersecurity and data privacy seriously and devote significant resources and tools to protect our systems, products and data and to prevent unwanted intrusions and disclosures, in compliance with applicable U.S. federal and state laws and non-U.S. laws and regulations addressing cybersecurity and data privacy. In particular, we have put in place policies and procedures to address the European General Data Protection Regulation, which went into effect in May 2018, and the California Consumer Privacy Act, which went into effect in January 2020. However, these security and compliance efforts are costly to implement and may not be successful. There can be no assurance that we will be able to prevent, detect and adequately address or mitigate all cyber-attacks or security breaches. Any such breach could have a material adverse effect on our operations and our reputation and could cause irreparable damage to us or our systems, regardless of whether we or our third-party providers are able to adequately recover critical systems following a systems failure.

Litigation pending against us could materially impact our business and results of operations.

We are currently a party to various legal and other proceedings. See "Part I, Item 3. Legal Proceedings" of this Annual Report on Form 10-K. Trends in litigation may include class actions involving consumers, stockholders or employees, and claims relating to commercial, labor, employment, antitrust, securities or environmental matters. Litigation trends and the outcome of litigation cannot be predicted with certainty and adverse litigation trends and outcomes could result in material damages and/or other expenses, which could adversely affect our financial condition and results of operations. We can provide no assurances as to the outcome of any litigation.

RISKS RELATED TO THE IWCO DIRECT DISPOSAL

The divestiture of IWCO Direct may not achieve the intended benefits and changes our exposures to other risks and uncertainties.

As a result of the IWCO Direct Disposal, our only business is our Supply Chain segment, and thus we are a smaller, less diversified and more narrowly-focused business than before. This makes us more vulnerable to changing market and economic conditions, and may have a continuing impact on the execution of our business strategy and our overall operating results. We may not be successful in managing these or any other significant risks that we encounter in our Supply Chain segment, which could harm our financial condition and results of operations.

In addition, the divestiture poses risks and challenges that may adversely impact our business, including difficulties in the separation of operations, services and personnel, the diversion of management's attention from other business concerns, transaction and transition costs, the disruption of business, and the potential loss of key employees. However, through the date of this filing we have not experienced any material adverse effects of these risks since the divestiture. As a result, we may not achieve the anticipated benefits of the divestiture.

Our future results of operations are solely dependent on the operations of our Supply Chain business segment and will differ materially from our previous results.

As a result of the IWCO Direct Disposal, our future financial results are expected to differ materially from our previous results. Starting with the three months ended April 30, 2022 (covered by the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2022, which was filed with the SEC on June 14, 2022), our financial results are dependent only on our Supply Chain segment. Our recently divested Direct Marketing business segment generated approximately 63% of our total net revenue for the fiscal year ended July 31, 2021 and represented approximately 78% of our consolidated assets as of July 31, 2021. However, the Direct Marketing business segment also represented the majority of all of our operating losses for fiscal year ended July 31, 2021. Thus, due to the IWCO Direct Disposal, we have experienced significant reductions in our future net revenue and assets, and have experienced lower net losses and operating losses. However, there can be no guarantee that the IWCO Direct Disposal will result in stronger long-term financial and operational results for our remaining Supply Chain business segment. Any downturn in our Supply Chain business could have a material adverse effect on our future operating results and financial condition and could materially and adversely affect the trading price of our common stock.

RISKS RELATED TO TAXATION

We may be unable to realize the benefits of our net operating loss carry-forwards and other tax benefits (collectively, "NOLs" or "Tax Benefits").

Our past operations generated significant NOLs. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act was enacted in response to the COVID-19 pandemic which among, other things, amends the treatment of NOLs. Under federal tax laws, for NOLs arising in tax years beginning before January 1, 2018, we generally can use any such NOLs and certain related tax credits to reduce ordinary income tax paid in our prior two tax years or on our future taxable income for up to 20 years, at which point they expire for such purposes. Until they expire, we can carry forward NOLs and certain related tax credits that we do not use in any particular year to offset taxable income in future years. For NOLs arising in tax years beginning after December 31, 2017 and before January 1, 2021, we are allowed to carryback such NOLs to each of the five taxable years preceding the taxable year of such losses and generally can use any such NOLs and certain related tax credits to reduce ordinary income tax paid on our future taxable income indefinitely; however, except for NOLs generated in tax years beginning after December 31, 2017 and prior to January 1, 2021 (which can be carried back to reduce taxable income for the prior five tax years), any such NOLs cannot be used to reduce ordinary income tax paid in prior tax years. In addition, the deduction for NOLs arising in tax years beginning after December 31, 2020 is limited to 80% of our taxable income for any tax year (computed without regard to the NOL deduction). NOLs arising in tax years beginning before January 1, 2018, are referred to herein as "Current NOLs." The Company had net NOL carryforwards for federal and state tax purposes of approximately \$2.1 billion and \$111.0 million, respectively, at July 31, 2021, substantially all of which arose in tax years ending before January 1, 2018. We cannot estimate the exact amount of NOLs that we will be able use to reduce future income tax liability because we cannot predict the amount and timing of our future taxable income.

Our ability to utilize our NOLs to offset future taxable income may be significantly limited if we experience an "ownership change," as determined under Section 382 of the Internal Revenue Code (the "Code" or "Internal Revenue Code"). Under Section 382, an "ownership change" occurs if one or more stockholders or groups of stockholders that each owns (or is deemed to own) at least 5% of our common stock increases their aggregate ownership by more than 50 percentage points over its lowest ownership percentage within a rolling three-year period. If an ownership change occurs, Section 382 would impose an annual limit on the amount of our NOLs that we can use to offset taxable income equal to the product of the total value of our outstanding equity immediately prior to the ownership change (reduced by certain items specified in Section 382) and the federal long-term tax-exempt interest rate in effect for the month of the ownership change. Several complex rules apply to calculating this annual limit.

If an ownership change is deemed to occur, the limitations imposed by Section 382 could significantly limit our ability to use our NOLs to reduce future income tax liability and result in a material amount of our Current NOLs expiring unused and, therefore, significantly impair the value of our NOLs. While the complexity of Section 382's provisions and the limited knowledge any public company has about the ownership of its publicly traded securities make it difficult to determine whether an ownership change has occurred, we currently believe that an ownership change has not occurred.

Our ability to use our Current NOLs in future years will depend upon the amount of our federal and state taxable income. If we do not have sufficient federal and state taxable income in future years to use the Current NOLs before they expire, we will lose the benefit of the Current NOLs permanently. In addition to the generation of future federal and state taxable income, our ability to use our Current NOLs will depend significantly on our success in identifying suitable acquisition or investment candidates, and once identified, successfully consummating an acquisition of, or investment in these candidates. We have adopted an amendment to our Restated Certificate of Incorporation (the "Protective Amendment") and a tax benefit preservation plan ("Tax Plan"), each designed to preserve our ability to utilize our NOLs, by preventing an "ownership change" within the meaning of Section 382 that would impair our ability to utilize our NOLs. For more information, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Tax Benefits Preservation Plan."

Although the Tax Plan is intended to diminish the likelihood of an ownership change, we cannot assure you that it will be effective. The amount by which an ownership interest may change in the future could, for example, be affected by purchases and sales of common stock by stockholders holding five percent or more of our outstanding common stock, over which we have no control, and new issuances of shares of common stock by us, should we choose to do so.

The amount of NOLs that we have claimed has not been audited or otherwise validated by the U.S. Internal Revenue Service ("IRS"). The IRS could challenge our calculation of the amount of our NOLs or our determinations as to when a prior change in ownership occurred, and other provisions of the Internal Revenue Code may limit our ability to carry forward our NOLs to offset taxable income in future years. If the IRS was successful with respect to any such challenge, the potential tax benefit of the NOLs to us could be substantially reduced. In addition, determining whether an ownership change has occurred is subject to uncertainty, both because of the complexity and ambiguity of the Section 382 provisions and because of limitations

on the knowledge that any publicly traded company can have about the ownership of, and transactions in, its securities on a timely basis. Therefore, we cannot assure you that the IRS or other taxing authority will not claim that we experienced an ownership change and attempt to reduce the benefit of the NOLs even if the Protective Amendment and Tax Plan are in place. Any of the above risks to our ability to use our NOLs could significantly impair our financial condition and materially adversely affect the value of your investment.

There may be adverse effects on the value of your investment from our use of the Protective Amendment and Tax Plan.

The Protective Amendment and Tax Plan are intended to deter persons or groups of persons from acquiring beneficial ownership of our Common Stock in excess of the specified limitations, as a way of preventing an “ownership change” and protecting our ability to use our NOLs. For more information, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Tax Benefits Preservation Plan.” Nonetheless, the Protective Amendment and Tax Plan may have an “anti-takeover effect” because they may deter a person or group of persons from acquiring beneficial ownership of 4.99% or more of our outstanding common stock or, in the case of a person or group of persons that already own 4.99% or more of our outstanding common stock, from acquiring any additional common stock. The Protective Amendment and Tax Plan could discourage or prevent a merger, tender offer, proxy contest or accumulations of substantial blocks of shares of common stock.

Additionally, a stockholder’s ability to dispose of our common stock may be limited if the Protective Amendment or Tax Plan reduces the number of persons willing to acquire our common stock or the amount they are willing to acquire. Thus, the Protective Amendment and Tax Plan could severely reduce liquidity of our common stock, negatively impacting the value of your investment. A stockholder may also become a greater than 4.99% stockholder upon actions taken by persons related to, or affiliated with, that stockholder. Stockholders are advised to carefully monitor their ownership of our common stock and consult their own legal advisors and/or us to determine whether their ownership of common stock approaches the proscribed level.

We are subject to federal, state and foreign tax audits, which could result in the imposition of liabilities that may or may not have been reserved, and changes in our provision for income taxes.

We are subject to audits by taxing authorities in various jurisdictions with respect to income taxes and for various other taxes, including but not limited to value added tax (“VAT”), excise tax, sales and use tax, gross receipts tax and property tax. These audits can cover periods for several years prior to the date the audit is undertaken and could result in the imposition of liabilities, interest and penalties if our positions are not accepted by the auditing tax authority.

In addition, the Organization for Economic Co-operation and Development (“OECD”), an international association comprised of 38 countries, including the United States, has made changes and is contemplating additional changes to numerous long-standing tax principles. There can be no assurance that these changes and any contemplated changes finalized and adopted by countries, will not have an adverse impact on our provision for income taxes.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

Our failure to maintain compliance with Nasdaq’s continued listing requirements could result in the delisting of our common stock.

Our common stock is currently listed on the Nasdaq Global Select Market. In order to maintain this listing, we must satisfy minimum financial and other requirements. On April 28, 2020, we received a deficiency letter from the Listing Qualifications Department of The Nasdaq Stock Market LLC (“Nasdaq”) notifying the Company that, for the last 30 consecutive business days, the closing bid price of the Company’s common stock has not been maintained at the minimum required closing bid price of at least \$1.00 per share as required for continued listing on the Nasdaq Global Select Market pursuant to Listing Rule 5450(a)(1) (the “Minimum Bid Price Rule”). On January 26, 2021, the Company received a letter from Nasdaq notifying it that it had regained full compliance with the Minimum Bid Price Rule, and that the matter was closed. From that date until July 31, 2021, the closing price per share of the Company’s common stock fluctuated from a low of \$1.68 to a high of \$2.21. The Company’s continued compliance with the Minimum Bid Price Rule is dependent on the Company’s share price and there can be no assurance that Company will continue to satisfy Nasdaq’s minimum financial and other requirements in future periods.

The perception among investors that the Company is at heightened risk of a deficiency under the Minimum Bid Price Rule and of subsequent delisting could negatively affect the market price of our securities and trading volume of the Company’s common stock. Additionally, any delisting determination, if made following the notification of a deficiency and expiration of

any applicable cure period, could seriously decrease or eliminate the value of an investment in the Company's common stock. While an alternative listing on an over-the-counter exchange could maintain some degree of a market in the Company's common stock, we could face substantial material adverse consequences, including, but not limited to: limited availability for market quotations for the Company's common stock; reduced liquidity with respect to the Company's common stock; a determination that the Company's common stock is a "penny stock" under SEC rules, subjecting brokers trading the Company's common stock to more stringent rules on disclosure and the class of investors to which the broker may sell the common stock; and limited news and analyst coverage.

SPH Group Holdings LLC and its affiliates own a majority of the voting power of our capital stock and have significant influence over our corporate decisions.

As of October 1, 2022, SPH Group Holdings LLC ("SPHG Holdings") and its affiliates, including Steel Partners Holdings L.P. ("Steel Holdings"), Handy & Harman Ltd. and Steel Partners, Ltd., beneficially owned approximately 50.0% of our outstanding capital stock, including 17,857,143 shares of common stock underlying Series C Convertible Preferred Stock, par value \$0.01 per share (the "Series C Preferred Stock"), which vote on an as-converted basis together with our common stock, and 6,293,707 shares of common stock underlying a 7.50% Convertible Senior Note due 2024, which do not vote on an as-converted basis together with our common stock. In addition, as of July 31, 2022, a Section 13(d) group made of SPHG Holdings and certain of its affiliates, collectively owned 53.5% of our outstanding capital stock, representing 49.7% of the voting power of our capital stock. In addition, two of our board members include the Executive Chairman of the general partner of Steel Holdings and the President of Steel Holdings.

As a result of this board representation and ownership of our capital stock, SPHG Holdings and its affiliates are able to influence our management and affairs and many matters requiring stockholder approval, including the election of directors, the passage of a tax benefits preservation plan and certain amendments to our organizational documents. In addition, because a business combination, such as a merger or consolidation, requires the affirmative vote of 75% of our outstanding voting stock, this concentration of ownership may have the effect of delaying or preventing a change in control of our Company and might adversely affect the market price of our common stock. SPHG Holdings and its affiliates may also have interests that are different from other shareholders and may vote in a way that may be adverse to our other stockholders' interests, conflicts of interest, or the appearance of conflicts of interest, could arise between our interests and the interests of SPHG Holdings and its affiliates. See Note 22 of the accompanying notes to the consolidated financial statements included in Item 8 in this Report for additional information.

Members of our Board of Directors also have significant interests in Steel Holdings and its affiliates, which may create conflicts of interest.

Some members of our Board of Directors also hold positions with Steel Holdings and its affiliates. Specifically, Warren G. Lichtenstein, our Interim Chief Executive Officer and Executive Chairman of the Board, is affiliated with Steel Holdings and is the Executive Chairman of Steel Partners Holdings GP Inc. ("Steel Holdings GP"). Glen Kassan, our Vice Chairman of the Board of Directors and former Chief Administrative Officer, is an employee of Steel Services. Jack L. Howard, a director, is the President and a director of Steel Holdings GP. See our definitive proxy statement on Schedule 14A filed August 23, 2022 for full biographical information for Messrs. Lichtenstein, Kassan and Howard.

As a result, these individuals may face potential conflicts of interest with each other and with our stockholders. They may be presented with situations in their capacity as either an officer or as our directors that conflict with their fiduciary obligations to Steel Holdings and its affiliates, which in turn may have interests that conflict with the interests of our other stockholders. While our contractual arrangements place restrictions on the parties' conduct in certain situations and related party transactions are subject to independent review and approval in accordance with our related party transaction approval procedures and applicable law, the potential for a conflict of interest exists and such persons may have conflicts of interest, or the appearance of conflicts of interest, with respect to matters involving or affecting SPHG Holdings and affiliates.

There can be no assurance that the proposed Merger between us and Steel Holdings will be approved and ultimately consummated.

On June 12, 2022, upon the recommendation of the Special Committee, the Company entered into the Merger Agreement with Steel Holdings and Merger Sub, pursuant to which Merger Sub will merge with and into the Company with the Company surviving the Merger as a wholly owned subsidiary of Steel Holdings. For information on the terms, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Proposed Merger with Steel Holdings" of this Annual Report on Form 10-K.

Consummation of the Merger is subject to customary closing conditions, including, but not limited to, (i) approval of the Merger by (a) the holders of a majority in voting power of the outstanding shares of common stock and Series C Preferred

Stock of the Company (voting on an as converted to shares of common stock basis), voting together as a single class, (b) a majority of the outstanding shares of common stock of the Company not owned, directly or indirectly, by Steel Holdings and its affiliates and related parties, and any other officers or directors of the Company and (c) the holders of a majority of the outstanding shares of Series C Preferred Stock of the Company voting as a separate class, (ii) the absence of any laws or orders restraining, enjoining or otherwise preventing, prohibiting or materially impeding or delaying the consummation of the Merger, (iii) the accuracy of the Company's, Steel Holdings' and Merger Sub's, representations and warranties (subject to certain materiality qualifiers), (iv) Company's, Steel Holdings' and Merger Sub's compliance in all material respects with their respective obligations under the Merger Agreement, and (v) the absence of any Company Material Adverse Effect (as defined in the Merger Agreement). We intend to pursue the satisfaction or waiver, as applicable, of each condition to the consummation of the Merger, including the preparation of a proxy statement, related SEC filings and receipt of requisite stockholder approval. However, no assurance can be given that such conditions to the consummation of the Merger will be satisfied or waived, as applicable, in a timely manner, or at all, that the agreement for the Merger will not be terminated by either party due to failure to consummate the Merger by December 9, 2022. Many of the conditions to the consummation of the Merger are not within our control, and we cannot predict if or when these conditions will be satisfied or waived.

If the conditions to the consummation of the Merger are not satisfied or waived in a timely manner, or at all, the Merger may be delayed or we may be unable to consummate the Merger, which could adversely affect our stock price, business and financial condition.

Additionally, a "going private" transaction, such as the Merger, or any other potential strategic alternative transaction, exposes us, our Board of Directors and the Special Committee to heightened risk of litigation, which may delay the closing of the Merger or result in significant costs and expenses to us, which may impair our ability to complete the Merger or adversely affect our results of operations.

The Company's possible inability to pay the redemption price of its Series C Convertible Preferred Stock or the effect of such payment on its liquidity could materially adversely impact its liquidity and financial condition.

On December 15, 2017, the Company entered issued 35,000 shares of the Company's newly created Series C Convertible Preferred Stock, par value \$0.01 per share (the "Preferred Stock"). For more information, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Preferred Stock." Under the terms of the Preferred Stock, each share of Preferred Stock can be converted into shares of the Company's 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 dividends at 6% per annum payable, at the Company's option, in cash or Common Stock. There are several triggering events upon which the Company or the holders of the Preferred Stock have 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. Additionally, 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 the Series C Certificate of Designations). If holders of the Preferred Stock exercise this right to require the Company to redeem all the Preferred Stock, the Company may have insufficient liquidity to pay the redemption price or the Company's payment of the redemption price may adversely impact the Company's liquidity and ability to finance its operations.

RISKS RELATED TO OUR INDEBTEDNESS

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

Our only outstanding debt is under our 7.50% Senior Convertible Notes, but indebtedness we incur in the future could have important consequences for us and our stockholders. For more information, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt and Financing Arrangements" of this Annual Report on Form 10-K.

Debt agreements we enter into in the future could require us to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures and acquisitions, and for other general corporate purposes. In addition, such 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.

Such future debt agreements could also contain affirmative and negative covenants, including with regard to specified financial covenants, which 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 those 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 future indebtedness. This could have serious consequences to our financial condition, operating results and business, and could cause us to become insolvent or enter into bankruptcy proceedings, and stockholders may lose all or a portion of their investment because of the priority of the claims of the creditors on the assets.

Changes in reference 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 reference 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.

In addition to this, LIBOR, the London Interbank Offered Rate, is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. The Company typically uses LIBOR as a reference rate in the Company's credit facilities such that the interest due to our lenders is calculated using LIBOR. In 2017, the United Kingdom's Financial Conduct Authority ("FCA"), which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if at that time whether or not LIBOR will cease to exist, if new methods of calculating LIBOR will be established such that it continues to exist after 2021 or if replacement conventions will be developed. In March 2021, the FCA confirmed that all of the LIBOR settings for Euro and Swiss Franc and some of the LIBOR settings for Japanese Yen, Sterling and US dollars will cease in December 2021 and the remainder of the LIBOR settings for US dollars will cease in June 2023. To identify a successor rate for LIBOR, financial regulators in various countries, including the United States, the United Kingdom, the European Union and Switzerland, have formed working groups with the aim of recommending alternatives to LIBOR denominated in their local currencies. Some of the financial regulators have identified the Secured Overnight Financing Rate ("SOFR") as their preferred alternative rate for LIBOR.

SOFR is observed and backward-looking, which stands in contrast with LIBOR under the current methodology, which is an estimated forward-looking rate and relies, to some degree, on the expert judgment of submitting panel members. Given that SOFR is a secured rate backed by government securities, it will be a rate that does not take into account bank credit risk (as is the case with LIBOR). Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question. Although certain financial regulators have indicated their preference for SOFR as the preferred replacement rate for LIBOR, it is unclear if other benchmarks may emerge or if other rates will be adopted. As such, the future of LIBOR is uncertain.

At this time, due to a lack of consensus existing as to what rate or rates may become accepted alternatives to LIBOR, it is impossible to predict the effect of any such alternatives on the Company's liquidity or interest expense. Uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the performance of LIBOR relative to its historic values. However, even if the financial instruments transition to using alternative benchmarks like SOFR successfully, the new benchmarks are likely to differ from LIBOR, as the alternative benchmark rate may be calculated differently. If LIBOR ceases to exist, the Company may also need to renegotiate its credit agreements that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established. This may increase the interest expense associated with our outstanding indebtedness or any future indebtedness we may incur. Further, transitioning to an alternative benchmark rate, such as SOFR, may result in us incurring expense and legal risks, as renegotiation and changes to documentation may be required in effecting the transition. Any of these occurrences could materially and adversely affect our borrowing costs, financial condition, and results of operations.

GENERAL RISK FACTORS

An increase in our effective tax rate may adversely impact our results of operations.

A number of factors may increase our future effective tax rates, including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;

- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development, impact of costs associated with business combinations and impairments of goodwill in connection with acquisitions;
- changes in available tax credits;
- changes in share-based compensation;
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles;
- the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes; and
- increases in tax rates in various jurisdictions.

Any significant increase in our future effective tax rates could reduce net income for future periods.

ITEM 1B.— UNRESOLVED STAFF COMMENTS

None.

ITEM 2.— PROPERTIES

Our corporate headquarters are located in Smyrna, Tennessee. As of July 31, 2022, our Supply Chain business leased more than 20 sites in several countries from which we operate ModusLink, which consist of office and warehouse space and are located throughout the world, including, but not limited to, the United States, Mexico, the Netherlands, the Czech Republic, Ireland, Singapore, Japan, Australia and Mainland China.

We believe that our existing properties are suitable and adequate for our present purposes and provide sufficient capacity to meet our anticipated requirements, and that new facilities will be available in the event we need additional or new space.

ITEM 3.— LEGAL PROCEEDINGS

The information required with respect to this item can be found in Note 10 to our consolidated financial statements and is incorporated by reference into this Item 3. For an additional discussion of certain risks associated with legal proceedings, also see “Part I, Item 1A. Risk Factors” of this Report.

ITEM 4.— MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5.—MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

As of July 31, 2022, we had 60,529,558 common shares issued and outstanding. Our common stock is traded on the Nasdaq Capital Market under the symbol "STCN."

Stockholders

As of July 31, 2022, there were approximately 306 holders of record of common stock of the Company. This number does not include beneficial owners for whom shares are held by nominees in street name.

Dividends

We currently intend to retain earnings, if any, to support our business and do not anticipate paying cash dividends in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our Board of Directors, after taking into account various factors, including our financial condition, operating results, any restrictions on payment of dividends under our credit facilities, current and anticipated cash needs and plans for expansion.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

The Company did not make any purchases of its common stock during the year ended July 31, 2022.

Equity Compensation Plans

Information regarding the Company's equity compensation plans and the securities authorized for issuance thereunder is set forth in Item 12 of Part III.

Equity Performance Graph

Consistent with the rules applicable to "Smaller Reporting Companies" we have omitted information required by this item.

ITEM 6.— SELECTED FINANCIAL DATA

RESERVED

ITEM 7.— MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. For this purpose, any statements contained herein that are not statements of historical fact 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 Item 1A. Risk Factors and elsewhere in this Report. For more information, see "Forward Looking Statements." 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. We do not undertake any obligation to update forward-looking statements whether as a result of new information, future events or otherwise.

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 II, Item 8 of this Annual Report on Form 10-K, which recasts the financial information in the Company's Annual Report on Form 10-K for the year ended July 31, 2021 to present IWCO Direct (formerly our Direct Marketing segment) as a discontinued operation.

Overview

Steel Connect, Inc. (the "Company") is a holding company which operates through its wholly-owned subsidiary, ModusLink Corporation ("ModusLink" or "Supply Chain"), which serves the supply chain management market.

ModusLink provides digital and physical supply chain solutions to many of the world's leading brands across a diverse range of industries, including consumer electronics, telecommunications, computing and storage, software and content, consumer packaged goods, medical devices, retail and luxury and connected devices. These solutions are delivered through a combination of industry expertise, innovative service solutions, and integrated operations, proven business processes, an expansive global footprint and world-class technology. With a global footprint spanning North America, Europe and the Asia Pacific Region, the Company's solutions and services are designed to improve end-to-end supply chains in order to drive growth, lower costs, and improve profitability.

Disposition of IWCO Direct Holdings, Inc. ("IWCO Direct" or "Direct Marketing")

Beginning in the second quarter of 2020, with the shutdown of the U.S. economy due to the COVID-19 pandemic, IWCO Direct's business was significantly and adversely affected by a material reduction in customer mailing activities. Against this backdrop, the Company held, on behalf of IWCO Direct, extensive discussions with Cerberus about amending and extending IWCO Direct's credit facility with Cerberus under which there was approximately \$361 million outstanding as of January 31, 2022 that was to mature in December 2022. In addition, the Company's Board of Directors considered a range of

strategic options to address the impending maturity. In mid-January 2022, it became apparent that it would not be possible to extend or refinance the credit facility prior to its maturity. In addition, short-term funding under the revolving credit facility became unavailable. IWCO Direct was in the process of implementing the previously disclosed competitive improvement plan (“CIP”) intended to address the changing requirements of its customers and markets. Despite initial favorable outcomes and improving prospects from the CIP, the Company was unable to amend IWCO Direct's credit facility or identify alternatives to refinance IWCO Direct's indebtedness given the magnitude of that indebtedness relative to the performance of IWCO Direct's business.

In light of these developments, the Board of Directors determined that it was in the best interests of the Company's stockholders to pursue an orderly and consensual disposition of IWCO Direct to the Cerberus-led investor group. Although the Board of Directors considered other alternatives for IWCO Direct, the Board of Directors concluded that such alternatives would not be viable and on February 25, 2022, the Company completed the disposition of IWCO Direct to the Cerberus-led investor group (the entire transaction being referred to as the “IWCO Direct Disposal”). The Company did not receive any cash consideration from the Cerberus-led investor group in exchange for the disposition of IWCO Direct.

The Company deconsolidated IWCO Direct as of February 25, 2022 as it no longer held a controlling financial interest as of that date. The results of IWCO Direct are presented as a discontinued operation in all periods reported. Refer to Notes 1 and 3 to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information on the IWCO Direct Disposal.

Customers

Historically, a limited number of key clients have accounted for a significant percentage of the Company's revenue. For the fiscal years ended July 31, 2022 and 2021, the Company's 10 largest clients accounted for approximately 78% and 81% of consolidated net revenue from continuing operations, respectively. Two customers accounted for approximately 31% and 12% of the Company's consolidated net revenue from continuing operations for the fiscal year ended July 31, 2022, and one customer accounted for 42% of the Company's consolidated net revenue from continuing operations for the fiscal year ended July 31, 2021. No other clients accounted for greater than 10% of the Company's consolidated net revenue from continuing operations for the fiscal year ended July 31, 2022 and 2021.

In general, the Company does not have any agreements that obligate any client to buy a minimum amount of services from it or designate it as an exclusive service provider. Consequently, the Company's net revenue is subject to demand variability by our clients. The level and timing of orders placed by the Company's 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 its clients, the Company expects to offset the adverse financial impact such factors may bring about.

Impact of COVID-19

The ongoing COVID-19 pandemic (in particular, the emergence of new variants of the virus across the globe) has caused, and continues to cause, significant disruptions in the U.S. and global economies. For example, national and local governments in the United States and around the world continue to implement measures to prevent the spread of COVID-19 and its variants, including travel bans, prohibitions on group events and gatherings, shutdowns of certain businesses, quarantines, curfews, and recommendations to practice physical distancing. Such measures have restricted and continue to restrict individuals' daily activities and curtail or cease many businesses' normal operations. The COVID-19 pandemic has adversely impacted, and is likely to further adversely impact, nearly all aspects of our business and markets, including our workforce and the operations of our clients, suppliers, and business partners. Beginning in March 2020, when the World Health Organization categorized COVID-19 as a pandemic and the President of the United States declared the COVID-19 outbreak a national emergency, we experienced impacts to our customers' demand, facility operations, supply chain, availability and productivity of personnel, while also working to comply with rapidly evolving international, federal, state and local restrictions and recommendations on travel and workplace health and safety. We experienced disruptions to our business continuity as a result of temporary closures of certain of ModusLink's facilities in the third and fourth quarters of fiscal year 2020, as well as the four quarters of fiscal year 2021. However, these temporary closures did not have a significant impact on ModusLink's operations.

An outbreak in Mainland China forced temporary lockdown orders from March 14, 2022 to March 20, 2022 in several cities in which ModusLink operates. In April and May 2022, there were further temporary lockdown orders which impacted several ModusLink facilities in China; however, ModusLink was able to resume operations on May 5, 2022 at one site and at another site on May 31, 2022. In July 2022, there were further temporary lockdown orders which impacted one ModusLink facility in China. In September and October 2022, there were further temporary lockdown order which impacted several ModusLink facilities in China. The lockdowns in China have not had a significant impact to ModusLink's operations

through the filing of this Annual Report on Form 10-K. If the situation continues at this level or worsens, however, it could result in a potential adverse impact on our business, results of operations and financial condition. We will evaluate further actions if circumstances warrant.

Beginning in the second quarter of 2020, with the shutdown of the U.S. economy due to the COVID-19 pandemic, IWCO Direct's business was also significantly and adversely affected by a material reduction in customer mailing activities. Additionally, although IWCO Direct operated as an essential business, it had reduced operating levels and labor shifts due to lower sales volume during the third quarter of fiscal year 2020.

To help combat these impacts and mitigate the financial impact of the COVID-19 pandemic on our business, during fiscal year 2020 we took proactive measures by initiating cost reduction actions, including the waiver of board fees, hiring freezes, staffing and force reductions, company-wide salary reductions, bonus payment deferrals and temporary 401(k) match suspension. The temporary waiver of board fees and company-wide salary reduction actions taken in the prior fiscal year were fully restored prior to the beginning of fiscal year 2021, and the majority of salary reductions were repaid prior to the fiscal quarter ended January 31, 2021.

Additionally, against the backdrop of the reduction in IWCO Direct's business, the Company held extensive discussions with Cerberus about amending and extending IWCO Direct's credit facility with Cerberus under which there was approximately \$361.3 million outstanding as of January 31, 2022 that was to mature in December 2022. These discussions ultimately resulted in the disposition of IWCO Direct. For more information, see "Disposition of IWCO Direct" above and

Note 3 below. We continue our focus on cash management and liquidity, which includes aggressive working capital management.

We continue to closely monitor the impact of COVID-19 on all aspects of our business and geographies, including its impact on our clients, employees, suppliers, vendors, business partners and distribution channels. We believe that such impacts could include, the continued disruption to the demand for our businesses' products and services; disruptions in or closures of our business operations or those of our customers or suppliers; the impact of the global business and economic environment on liquidity and the availability of capital; increased costs and delays in payments of outstanding receivables beyond normal payment terms; supply chain disruptions; uncertain demand; and the effect of any initiatives or programs that we may undertake to address financial and operational challenges faced by our customers. Despite indications of economic recovery, the severity of the impact of the COVID-19 pandemic on the Company's business in the fiscal year ending July 31, 2022 and beyond is difficult to predict and will depend on a number of uncertain factors and trends. Such factors and trends include, but are not limited to: the duration and severity of the virus and its current variants; the emergence of new variant strains; the availability and widespread use of vaccines; the impact of the global business and economic environment on liquidity and the availability of capital; the extent and severity of the impact on our customers and suppliers; and U.S. and foreign government actions that have been taken, or may be taken in the future, to mitigate adverse economic or other impacts or to mitigate the spread of the virus and its variants. The Company continues to monitor for any developments or updates to COVID-19 guidelines from public health and governmental authorities, as well as the protection of the health and safety of its personnel, and is continuously working to ensure that its health and safety protocols, business continuity plans and crisis management protocols are in place to help mitigate any negative impacts of the COVID-19 pandemic on the Company's employees, business or operations.

Recent Developments

Proposed Merger with Steel Holdings

On June 12, 2022, the Company, Steel Partners Holdings L.P. ("Steel Holdings") and SP Merger Sub, Inc., a wholly-owned subsidiary of Steel Holdings ("Merger Sub"), entered into an agreement and plan of merger (the "Merger Agreement"), pursuant to which Merger Sub will merge with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly-owned subsidiary of Steel Holdings. The Merger Agreement provides that each share of the Company's common stock issued and outstanding immediately prior to the effective time of the Merger (other than dissenting shares and shares owned by the Company, Steel Holdings or any of their respective subsidiaries) will, subject to the terms and conditions set forth in the Merger Agreement, be converted into the right to receive (i) \$1.35 in cash, without interest and (ii) one contingent value right to receive a pro rata share of the proceeds received by the Company, Steel Holdings or any of their affiliates with respect to the sale, transfer or other disposition of all or any portion of the assets currently owned by ModusLink within two years of the Merger's closing date, to the extent such proceeds exceed \$80 million plus certain related costs and expenses. Steel Holdings and certain of its affiliates have also entered into a Voting and Support Agreement pursuant to which, among other things, they have agreed to vote all shares of common stock and Series C Preferred Stock beneficially owned by them in favor of the adoption of the Merger Agreement and the Merger and any alternative acquisition agreement approved by the Company's Board of Directors (acting on the recommendation of the special committee (the "Special Committee") of independent and disinterested directors formed to consider and negotiate the terms and conditions of the Merger and to make a recommendation to our Board of Directors).

The Merger Agreement includes a "go-shop" period that expired at 11:59 p.m. Eastern time on July 12, 2022, during which the Company was authorized to actively solicit and consider alternative acquisition proposals. Although the Company's financial advisor contacted or held discussions with numerous parties, no offers were received during the go shop period.

The closing of the Merger is conditioned upon receipt of approval of the Merger from (i) the holders of a majority in voting power of the outstanding shares of common stock and Series C Preferred Stock of the Company (voting on an as converted to shares of common stock basis), voting together as a single class, (ii) a majority of the outstanding shares of common stock of the Company not owned, directly or indirectly, by Steel Holdings and its affiliates and related parties, and any other officers or directors of the Company, and (iii) the holders of a majority of the outstanding shares of Series C Preferred Stock of the Company, voting as a separate class, as well as other customary closing conditions. Accordingly, there can be no assurance that the Company will be able to complete the Merger on the expected timeline or at all. See "Part I, Item 1A. Risk Factors" included in this Annual Report on Form 10-K.

Our Board of Directors, acting on the unanimous recommendation of the Special Committee, and the Board of Directors of Steel Partner Holdings GP Inc., the general partner of Steel Holdings, approved the Merger Agreement and the transactions contemplated by the Merger Agreement (such transactions, collectively, the "Transactions") and resolved to recommend the stockholders adopt the Merger Agreement and approve the Transactions. The Special Committee, which is comprised solely of independent and disinterested directors of the Company who are unaffiliated with Steel Holdings, exclusively negotiated the terms of the Merger Agreement with Steel Holdings, with the assistance of its independent financial and legal advisors.

Subject to the satisfaction of all of the conditions to closing, including the receipt of the requisite stockholder approvals, the Merger is expected to close in the last quarter of calendar 2022.

Results of Operations

Unless otherwise noted, this discussion of operating results relates to our continuing operations.

Fiscal Year 2022 Compared to Fiscal Year 2021

	Fiscal Year Ended July 31, 2022	Fiscal Year Ended July 31, 2021	\$ Change ¹	% Change ¹
	(In thousands)			
Net revenue	\$ 203,272	\$ 226,256	\$ (22,984)	(10.2)%
Cost of revenue	(161,736)	(178,552)	16,816	9.4 %
Gross profit	41,536	47,704	(6,168)	(12.9)%
Gross margin percentage	20.4 %	21.1 %		
Selling, general and administrative	(40,373)	(49,274)	8,901	18.1 %
Interest expense	(3,120)	(2,615)	(505)	(19.3)%
Other gains, net	4,089	1,187	2,902	244.5 %
Income (loss) from continuing operations before income taxes	2,132	(2,998)	5,130	171.1 %
Income tax expense	(11,388)	(8,837)	(2,551)	(28.9)%
Net loss from continuing operations	(9,256)	(11,835)	2,579	21.8 %
Net loss from discontinued operations	(1,712)	(32,556)	30,844	94.7 %

¹ favorable (unfavorable) change

Net Revenue:

Consolidated net revenue from continuing operations, for the fiscal year ended July 31, 2022, decreased by approximately \$23.0 million, as compared to the fiscal year ended July 31, 2021. This decrease in net revenue was primarily driven by lower volume associated with clients in the computing and consumer electronics markets which have been negatively impacted by global market shortage of semiconductor and other electrical component supplies. Fluctuations in foreign currency exchange rates had an insignificant impact on the net revenue for the fiscal year ended July 31, 2022, as compared to the same period in the prior year.

Cost of Revenue:

Consolidated cost of revenue from continuing operations consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services as well as costs for salaries and benefits, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Supply Chain's cost of revenue decreased by \$16.8 million for the fiscal year ended July 31, 2022, as compared to the prior year, primarily due to a \$17.0 million decrease in materials procured on behalf of clients. Supply Chain's gross margin percentage for the fiscal year ended July 31, 2022 decreased 70 basis points to 20.4% from 21.1% in the fiscal year ended July 31, 2021, primarily due to lower revenues and higher labor costs. Fluctuations in foreign currency exchange rates had an insignificant impact on Supply Chain's gross margin for the fiscal year ended July 31, 2022, as compared to the same period in the prior year.

Selling, General and Administrative:

Consolidated selling, general and administrative expenses ("SG&A") from continuing operations 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, restructuring and public reporting costs. SG&A expenses for the fiscal year ended July 31, 2022 decreased by approximately \$8.9 million, as compared to the same period in the prior year. Supply Chain's SG&A expenses decreased by \$10.7 million primarily due to lower costs associated with the information technology function for the Supply Chain segment. Corporate-level activity increased by \$1.8 million, primarily due to an increase in professional fees. Fluctuations in foreign currency exchange rates had an insignificant impact on SG&A expenses for the fiscal year ended July 31, 2022.

Interest Expense:

Total interest expense, net, for the year ended July 31, 2022 increased by approximately \$0.5 million primarily due to higher interest expense related to accretion of the discount on the SPHG Note.

Other Gains, Net:

Other gains, net for the fiscal year ended July 31, 2022 were approximately \$4.1 million. Other gains, net included gains of \$0.9 million from the derecognition of accrued pricing liabilities in the Supply Chain segment, net realized and unrealized foreign exchange gains of \$2.4 million, and \$0.7 million of sublease income in the Supply Chain segment.

Other gains, net for the fiscal year ended July 31, 2021 were approximately \$1.2 million. Other gains, net included gains of \$3.2 million from the derecognition of accrued pricing liabilities in the Supply Chain segment, partially offset by net realized and unrealized foreign exchange losses of \$1.9 million in the Supply Chain segment.

Income Tax Expense:

Company recorded income tax expense of approximately \$11.4 million and \$8.8 million for the fiscal years ended July 31, 2022 and 2021, respectively. The increase in income tax expenses for the year ended July 31, 2022 is primarily due to the income tax expense associated with an increase in the valuation allowance recorded on deferred tax assets as a result of the IWCO Direct disposal.

Net Loss from Continuing Operations:

Net loss from continuing operations for the year ended July 31, 2022 decreased \$2.6 million, as compared to the same period in the prior year. The decrease in net loss from continuing operations is primarily due an increase in foreign exchange gains and an increase in operating income, partially offset by an increase in income taxes.

Net Loss from Discontinued Operations:

Net loss from discontinued operations for the year ended July 31, 2022 and 2021 were \$1.7 million and \$32.6 million, respectively, and reflects the net loss for IWCO Direct. See Note 3 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" included in this Annual Report on Form 10-K.

Liquidity and Capital Resources

Anticipated Sources and Uses of Cash Flow

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of its securities, borrowings from lending institutions and sale of facilities that were not fully utilized. The Company believes it has access to adequate resources to meet its needs for normal operating costs, debt obligations and working capital for at least the next twelve months. The following table summarizes our liquidity:

	July 31, 2022
	(In thousands)
Cash and cash equivalents	\$ 53,142
Readily available borrowing capacity under Umpqua Revolver	11,890
	<u>\$ 65,032</u>

Due to the changes reflected in the U.S. Tax Cuts and Jobs Act in December 2017 ("U.S. Tax Reform"), 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 was made to U.S. taxable income in the fiscal year ended July 31, 2022 relating to this aspect of the U.S. Tax Reform. In future years, the Company believes that it 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. However, foreign laws may delay or add cost to any repatriation of cash from outside the U.S., which costs or delays may be significant.

Disposal of IWCO Direct

As a result of the IWCO Direct Disposal, the Company has no debt outstanding under the Cerberus Credit Facility (as defined below) as of July 31, 2022. Additionally, the CIP, which had estimated future cash outflows remaining of approximately \$44 million, is no longer a future cash outflow of the Company.

Consolidated net working capital was \$26.0 million at July 31, 2022, compared with \$22.3 million at July 31, 2021. Included in net working capital were cash and cash equivalents of \$53.1 million at July 31, 2022 and \$58.1 million at July 31, 2021. The improvement in net working capital was primarily related to an increase in accounts receivable of \$3.5 million from the fiscal year ended July 31, 2021.

Sources and uses of cash for the year ended July 31, 2022, as compared to the year ended July 31, 2021, are as follows:

	Fiscal Year Ended July 31,		
	2022	2021	Change
	(In thousands)		
Net cash used in operating activities	\$ (3,134)	\$ (8,110)	\$ 4,976
Net cash used in investing activities	(1,485)	(1,035)	(450)
Net cash used in financing activities	(2,297)	(2,195)	(102)

Operating Activities: Net cash used in operating activities was \$3.1 million for the fiscal year ended July 31, 2022, compared to \$8.1 million for the fiscal year ended July 31, 2021. The Company's future cash flows related to operating activities 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, and overall performance of the technology sector impacting the Supply Chain segment. The decrease in cash used as compared to the prior fiscal year was primarily due to an increase in working capital of \$3.8 million.

Investing Activities: Net cash used in investing activities was \$1.5 million and \$1.0 million for the fiscal year ended July 31, 2022 and 2021, respectively, and was primarily comprised of capital expenditures. The increase in capital expenditures in the fiscal year ended July 31, 2022 is primarily due to reduced capital spending in the prior year as a result of the COVID-19 pandemic.

Financing Activities: The \$2.3 million and \$2.2 million of cash used in financing activities during the fiscal year ended July 31, 2022 and 2021, respectively, was primarily due to \$2.1 million in payment of preferred dividends in each period.

Following is a summary of Company's outstanding debt and financing agreements and preferred stock. Refer to Notes 7 and 19 to our consolidated financial statements for further information.

7.50% Convertible Senior Note

On February 28, 2019, the Company entered into that certain 7.50% Convertible Senior Note Due 2024 Purchase Agreement with SPHG Holdings whereby SPHG Holdings loaned the Company \$14.9 million in exchange for a 7.50% Convertible Senior Note due 2024 (the "SPHG Note"). The SPHG Note bears interest at the fixed rate of 7.50% per year, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2019. The SPHG Note will mature on March 1, 2024 (the "SPHG Note Maturity Date"), unless earlier repurchased by the Company or converted by the holder in accordance with its terms prior to such maturity date.

At its election, the Company may pay some or all of the interest due on each interest payment date by increasing the principal amount of the SPHG Note in the amount of such interest due or any portion thereof (such payment of interest by increasing the principal amount of the SPHG Note referred to as "PIK Interest"), with the remaining portion of the interest due on such interest payment date (or, at the Company's election, the entire amount of interest then due) to be paid in cash by the Company. Following an increase in the principal amount of the SPHG Note as a result of a payment of PIK Interest, the SPHG Note will bear interest on such increased principal amount from and after the date of such payment of PIK Interest. SPHG Holdings has the right to require the Company to repurchase the SPHG Note upon the occurrence of certain fundamental changes, subject to certain conditions, at a repurchase price equal to 100% of the principal amount of the SPHG Note plus accrued and unpaid interest. The Company will have the right to elect to cause the mandatory conversion of the SPHG Note in whole, and not in part, at any time on or after March 6, 2022, subject to certain conditions including that the stock price of the Company exceeds a certain threshold. SPHG Holdings has the right, at its option, prior to the close of business on the business day immediately preceding the SPHG Note Maturity Date, to convert the SPHG Note or a portion thereof that is \$1,000 or an integral multiple thereof, into shares of common stock (if the Company has not received a required stockholder approval) or cash, shares of common stock or a combination of cash and shares of common stock, as applicable (if the Company has received a required stockholder approval), at an initial conversion rate of 421.2655 shares of common stock, which is equivalent to an initial conversion price of approximately \$2.37 per share (subject to adjustment as provided in the SPHG Note) per \$1,000 principal amount of the SPHG Note (the "Conversion Rate"), subject to, and in accordance with, the settlement provisions of the SPHG Note. For any conversion of the SPHG Note, if the Company is required to obtain and has not received approval from its stockholders in accordance with Nasdaq Stock Market Rule 5635 to issue 20% or more of the total shares of common stock outstanding upon conversion (including upon any mandatory conversion) of the SPHG Note prior to the relevant conversion date (or, if earlier, the 45th scheduled trading day immediately preceding the SPHG Note Maturity Date), the Company shall deliver to the converting holder, in respect of each \$1,000 principal amount of the SPHG Note being converted, a number of shares of common stock determined by reference to the Conversion Rate, together with a cash payment, if applicable, in lieu of delivering any fractional share of common stock based on the volume weighted average price (VWAP) of its common stock on the relevant conversion date, on the third business day immediately following the relevant conversion date. As of July 31, 2022 and 2021, outstanding debt in both periods consisted of the \$14.9 million 7.50% Convertible Senior Note due March 1, 2024. As of July 31, 2022 and July 31, 2021, the net carrying value of the SPHG Note was \$11.0 million, and \$9.3 million, respectively.

Umpqua Revolver

On March 16, 2022, ModusLink, as borrower, submitted a notice of termination to MidCap Financial Trust for its \$12.5 million revolving credit facility (the "MidCap Credit Facility"), and entered into a new credit agreement with Umpqua Bank (the "Umpqua Revolver"), as lender and as agent. There was no balance outstanding on the Midcap Credit Facility of at the time of its termination. The Umpqua Revolver provides for a maximum credit commitment of \$12.5 million and a sublimit of \$5.0 million for letters of credit and expires on March 16, 2024. Steel Connect, Inc. ("Parent") is not a borrower or a guarantor under the Umpqua Revolver. Under the Umpqua Revolver, ModusLink is permitted to make distributions to the Parent, in an aggregate amount not to exceed \$10.0 million in any fiscal year.

As of July 31, 2022, ModusLink was in compliance with the Umpqua Revolver's covenants, and believes it will remain in compliance with the Umpqua Revolver's covenants for the next twelve months. As of July 31, 2022, ModusLink had available borrowing capacity of \$11.9 million and there was \$0.6 million outstanding for letters of credit.

Cerberus Credit Facility

The Cerberus Credit Facility consisted of a term loan facility (the “Cerberus Term Loan”) and a \$25 million revolving credit facility (the “Revolving Facility”) (together the “Cerberus Credit Facility”) which was to mature on December 15, 2022. On February 25, 2022, the Company transferred all of its interests in IWCO Direct and the financial obligations of the Cerberus Credit Facility as part of the IWCO Direct Disposal. As a result, the Company has no debt or access to future borrowings under the Cerberus Credit Facility.

Preferred Stock

On December 15, 2017, the Company entered into a Preferred Stock Purchase Agreement (the "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 shares, or 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.

Under the Series C Certificate of Designations, each share of Preferred Stock can be converted into shares of the Company's 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 dividends at 6% per annum payable, at the Company's option, 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.

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) 100% of the stated value per share of Preferred Stock (initially \$1,000 per share) then held by them (as adjusted for any stock dividend, stock split, stock combination, reclassification 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 the Series C Certificate of Designations), or approximately \$35.2 million. If holders of the Preferred Stock exercise this right to require the Company to redeem all the Preferred Stock, the Company may have insufficient liquidity to pay the redemption price, or the Company's payment of the redemption price would likely adversely impact the Company's liquidity and ability to finance its operations.

Steel Connect, Inc.(as parent company, the “Parent”)

The Parent believes it has access to adequate resources to meet its needs for normal operating costs, debt obligations and working capital for at least the next twelve months. Upon a redemption request of the Preferred Stock (as discussed above), the Parent believes it is probable that it has access to adequate resources, including cash on hand and potential dividends from ModusLink, to pay the redemption price and continue its operations.

ModusLink believes that if dividends to the Parent are required, it would have access to adequate resources to meet its operating needs while remaining in compliance with the Umpqua Revolver's covenants over the next twelve months. However, there can be no assurances that ModusLink will continue to have access to its line of credit if its financial performance does not satisfy the financial covenants set forth in its financing agreement, which could also result in the acceleration of its debt obligations by its lender, adversely affecting liquidity.

Contractual Obligations

Our principal uses of cash will be to provide working capital, meet debt service requirements, fund capital expenditures and execute management's strategic plans including the IWCO Direct CIP. As of July 31, 2022, we had contractual cash

obligations to repay debt, make payments under operating and capital lease leases, and make dividend payments. As of July 31, 2022, payments due under these long-term obligations are as follows:

	Less than 1 year	2-3 years	4-5 years	More than 5 years	Total
	(In thousands)				
Debt ⁽¹⁾	\$ —	\$ 14,940	\$ —	\$ —	\$ 14,940
Interest payments ⁽²⁾	1,136	1,139	—	—	2,275
Operating lease liabilities	7,151	7,941	4,819	—	19,911
Financing lease liabilities	38	—	—	—	38
Preferred dividend payments	2,100	4,200	4,200	†	10,500
	<u>\$ 10,425</u>	<u>\$ 28,220</u>	<u>\$ 9,019</u>	<u>\$ —</u>	<u>\$ 47,664</u>

(1) Represents principal amount of debt and only includes scheduled principal payments.

(2) Represents expected interest payments on debt. Interest payments based on variable interest rates were determined using the interest rate in effect as of July 31, 2022.

† Holders of the Preferred Stock receive dividends at 6% per annum. In addition, beginning December 15, 2022, each holder of the Preferred Stock can 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).

Critical Accounting Policies

Our significant accounting policies are discussed in Note 2 to our audited consolidated financial statements. 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 United States of America. 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. The most significant of these estimates and assumptions relate to: (1) revenue recognition; (2) valuation allowances for trade and other receivables and inventories; (3) the valuation of long-lived assets; (4) contingencies, including litigation reserves; (5) restructuring charges and related severance expenses; (6) litigation reserves; (7) pension obligations; (8) going concern assumptions; (9) accrued pricing and tax related liabilities and; (10) incremental borrowing rate to determine present value of lease payments. Of the accounting estimates we routinely make relating to our critical accounting policies, those estimates made in the process of: recognition of revenue; determining the valuation of inventory and related reserves; accounting for impairment of long-lived assets; 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. Changes in estimates are reflected in the periods in which they become known. However, because these estimates inherently involve judgments and uncertainties, there can be no assurance that actual results will not differ materially from those estimates.

We believe that our critical accounting estimates have the following attributes: (1) we are required to make assumptions about matters that are uncertain and require judgment at the time of the estimate; (2) use of reasonably different assumptions could have changed our estimates, particularly with respect to recoverability of assets; and (3) changes in the estimate could have a material effect on our financial condition or results of operations. We believe the critical accounting policies below contain the more significant judgments and estimates used in the preparation of our financial statements:

- *Revenue recognition*
- *Accounting for impairment of long-lived assets*
- *Income taxes*
- *Leases*

Revenue Recognition

The Company recognizes revenue from its contracts with customers primarily from the sale of supply chain management services. Revenue is recognized when control of the promised goods or services is transferred to a customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. For ModusLink's supply chain management services arrangements, the services are considered to be transferred over time as they are performed. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Supply chain management services.

ModusLink's revenue primarily comes from the sale of supply chain management services to its clients. Amounts billed to customers under these arrangements include revenue attributable to the services performed as well as for materials procured on the customer's behalf as part of its service to them. The majority of these arrangements consist of two distinct performance obligations (i.e, warehousing/inventory management service and a separate kitting/packaging/assembly service), revenue related to each of which is recognized over time as services are performed using an input method based on the level of efforts expended.

Other.

Other revenue consists of cloud-based software subscriptions, software maintenance and support service contracts, fees for professional services and fees for the sale of perpetual software licenses in ModusLink's e-Business operations. Except for perpetual software licenses, revenue related to these arrangements is recognized on a straight-line basis over the term of the agreement or over the term of the agreement in proportion to the costs incurred in satisfying the obligations under the contract. Revenue from the sale of perpetual licenses is recognized at a point in time upon execution of the relevant license agreement and when delivery has taken place.

Performance Obligations and Standalone Selling Price

The Company's contracts with customers may include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require certain judgment. For arrangements with multiple performance obligations, the Company allocates revenue to each performance obligation based on its relative standalone selling price. Judgment is required to determine the standalone selling price for each distinct performance obligation. The Company generally determines standalone selling prices based on the prices charged to customers and uses a range of amounts to estimate standalone selling prices when we sell each of the products and services separately and need to determine whether there is a discount that needs to be allocated based on the relative standalone selling prices of the various products and services. The Company typically has more than one range of standalone selling prices for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, the Company may use information such as the type of customer and geographic region in determining the range of standalone selling prices.

Variable Consideration

The Company may provide credits or incentives to customers, which are accounted for as variable consideration when estimating the transaction price of the contract and amounts of revenue to recognize. The amount of variable consideration to include in the transaction price is estimated at contract inception using either the estimated value method or the most likely amount method based on the nature of the variable consideration. These estimates are updated at the end of each reporting period as additional information becomes available and revenue is recognized only to the extent that it is probable that a significant reversal of any amounts of variable consideration included in the transaction price will not occur.

Principal Versus Agent Revenue Recognition

For revenue generated from contracts with customers involving another party, the Company considers whether it maintains control of the specified goods or services before they are transferred to the customer, as well as other indicators such as the party primarily responsible for fulfillment and discretion in establishing price. Revenues are recognized on a gross basis if the Company is acting in the capacity of a principal and on a net basis if it's acting in the capacity of an agent.

Accounting for Impairment of Long-Lived Assets

Our long-lived assets include property, plant and equipment, capitalized software development costs for software to be sold, leased or otherwise marketed, and certain long-term investments. As of July 31, 2022, the consolidated carrying values of our property, plant and equipment were \$3.5 million, which represented 2.6% of total assets. We review the valuation of our

long-lived assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value or net realizable value expected to result from the asset's use and eventual disposition. We use a variety of factors to assess valuation, depending upon the asset. Long-lived assets are evaluated based upon the expected period the asset will be utilized and other factors depending on the asset, including estimated future sales, profits and related cash flows. Changes in estimates and judgments on any of these factors could have a material impact on our results of operations and financial position.

Income Taxes

The Company has net operating loss carryforwards for federal and state tax purposes of approximately \$2.2 billion and \$153.7 million, respectively, as of July 31, 2022. Income taxes are accounted for under the provisions of ASC 740, *Income Taxes*, using the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This methodology is subjective and requires significant estimates and judgments in the determination of the recoverability of deferred tax assets and in the calculation of certain tax liabilities. As of July 31, 2022 and 2021, a valuation allowance has been recorded against the deferred tax asset in the U.S. and certain of its foreign subsidiaries since management believes that after considering all the available objective evidence, both positive and negative, historical and prospective, with greater weight given to historical evidence, it is more likely than not that these assets will not be realized. In each reporting period, we evaluate the adequacy of our valuation allowance on our deferred tax assets. In the future, if the Company is able to demonstrate a consistent trend of pre-tax income, then at that time management may reduce its valuation allowance accordingly. The Company also performs a valuation allowance scheduling exercise based on the deferred tax assets and liabilities as of July 31, 2022.

In addition, the calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several tax jurisdictions. The Company is periodically reviewed by domestic and foreign tax authorities regarding the amount of taxes due. These reviews include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with various filing positions, we record estimated reserves for exposures. Based on our evaluation of current tax positions, the Company believes it has appropriately accrued for exposures as of July 31, 2022.

Leases

In order to calculate the operating ROU asset and operating lease liability for a lease, a lessee is required to apply a discount rate equal to the rate implicit in the lease whenever that rate is readily determinable. The Company's lease agreements generally do not provide a readily determinable implicit rate, nor is the rate available to the Company from its lessors and, therefore, the Company determines an incremental borrowing rate to determine the present value of the lease payments. The incremental borrowing rate represents the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar lease term to obtain an asset of similar value.

Recent Accounting Pronouncements

For a discussion of the Company's new or recently adopted accounting pronouncements, see Note 2 to the consolidated financial statements found elsewhere in this Form 10-K.

Tax Benefits Preservation Plan

Our past operations generated significant net operating losses, or NOLs. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act was enacted in response to the COVID-19 pandemic which among, other things, amends the treatment of NOLs. Under federal tax laws, for NOLs arising in tax years beginning before January 1, 2018, we generally can use any such NOLs and certain related tax credits to reduce ordinary income tax paid in our prior two tax years or on our future taxable income for up to 20 years, at which point they "expire" for such purposes. Until they expire, we can "carry forward" NOLs and certain related tax credits that we do not use in any particular year to offset taxable income in future years. For NOLs arising in tax years beginning after December 31, 2017 and before January 1, 2021, we are allowed to carryback such NOLs to each of the five taxable years preceding the taxable year of such losses and generally can use any such NOLs and certain related tax credits to reduce ordinary income tax paid on our future taxable income indefinitely; however, except for NOLs generated

in tax years beginning after December 31, 2017 and prior to January 1, 2021 (which can be carried back to reduce taxable income for the prior five tax years), any such NOLs cannot be used to reduce ordinary income tax paid in prior tax years. In addition, the deduction for NOLs arising in tax years beginning after December 31, 2020 is limited to 80% of our taxable income for any tax year (computed without regard to the NOL deduction). NOLs arising in tax years beginning before January 1, 2018, are referred to herein as "Current NOLs." The Company had net NOL carryforwards for federal and state tax purposes of approximately \$2.2 billion and \$153.7 million, respectively, at July 31, 2022, \$2.02 billion of the federal NOL arose in tax years ending before January 1, 2018 and \$138 million arose post January 1, 2018. We cannot estimate the exact amount of NOLs that we will be able use to reduce future income tax liability because we cannot predict the amount and timing of our future taxable income. For more information, see "Part I, Item 1A. Risk Factors—Risks Related to Taxation—We may be unable to realize the benefits of our net operating loss carry-forwards and other tax benefits (collectively, the 'NOLs' or 'Tax Benefits')."

In early 2018, Company's board of directors adopted the Protective Amendment and Tax Plan, each designed to preserve the Company's ability to utilize its NOLs, by preventing an "ownership change" within the meaning of Section 382 of the Internal Revenue Code that would impair the Company's ability to utilize its NOLs. Later that year, the stockholders of Steel Connect approved the Protective Amendment and Tax Plan.

The federal net operating losses will expire from fiscal year 2023 through 2038, and the state net operating losses will expire from fiscal year 2023 through 2041. The Company's ability to use its Tax Benefits would be substantially limited if the Company undergoes an Ownership Change. The Protective Amendment and Tax Plan are intended to prevent an Ownership Change of the Company that would impair the Company's ability to utilize its Tax Benefits.

The Protective Amendment generally restricts any direct or indirect transfer if the effect would be to (i) increase the direct, indirect or constructive ownership of any stockholder from less than 4.99% to 4.99% or more of the shares of common stock then outstanding or (ii) increase the direct, indirect or constructive ownership of any stockholder owning or deemed to own 4.99% or more of the shares of common stock then outstanding. Pursuant to the Protective Amendment, any direct or indirect transfer attempted in violation of the Protective Amendment would be void as of the date of the prohibited transfer as to the purported transferee (or, in the case of an indirect transfer, the ownership of the direct owner of the shares would terminate simultaneously with the transfer), and the purported transferee (or in the case of any indirect transfer, the direct owner) would not be recognized as the owner of the shares owned in violation of the Protective Amendment (the "excess stock") for any purpose, including for purposes of voting and receiving dividends or other distributions in respect of such shares, or in the case of options, receiving shares in respect of their exercise. In addition to a prohibited transfer being void as of the date it is attempted, upon demand, the purported transferee must transfer the excess stock to an agent of the Company along with any dividends or other distributions paid with respect to such excess stock. The agent is required to sell such excess stock in an arm's-length transaction (or series of transactions) that would not constitute a violation under the Protective Amendment.

As part of the 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 Tax 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% or more of the shares of common stock then outstanding or (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% stockholder.

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

The Protective Amendment does not expire. The Rights are not exercisable until the Distribution Date and will expire at 11:59 p.m., on January 18, 2024, unless the Rights are earlier redeemed or exchanged as provided in the Tax Plan or the Board of Directors earlier determines that the Tax Plan is no longer necessary or desirable for the preservation of the Tax Benefits. For more information, see “Part I, Item 1A. Risk Factors—Risks Related to Taxation—We may be unable to realize the benefits of our net operating loss carry-forwards and other tax benefits (collectively, the ‘NOLs’ or ‘Tax Benefits’).”

ITEM 7A.— QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Consistent with the rules applicable to "Smaller Reporting Companies" we have omitted information required by this Item.

ITEM 8.— FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Steel Connect, Inc.
Smyrna, Tennessee

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Steel Connect, Inc. and subsidiaries (the “Company”) as of July 31, 2022 and 2021, the related consolidated statements of operations and comprehensive loss, stockholders’ equity (deficit), and cash flows for each of the two years in the period ended July 31, 2022, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at July 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended July 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Determination of Incremental Borrowing Rates for Leases

As discussed in Notes 2 and 8 to the consolidated financial statements, the Company adopted ASC 842, Leases, on August 1, 2019. Operating lease ROU assets and liabilities as of July 31, 2022, were \$19.7 million and \$19.4 million, respectively. The Company calculates the operating lease ROU assets and liabilities as the present value of fixed lease payments over the reasonably certain lease term at the commencement of the lease. When the discount rate implicit in the lease is not readily available, the Company used its incremental borrowing rate to determine the present value of future lease payments. The determination of incremental borrowing rates involves significant judgment by management.

We identified the determination of incremental borrowing rates for leases that were newly executed or modified during the year as a critical audit matter. Significant judgment is required by management to develop inputs and assumptions used to determine the incremental borrowing rate for lease contracts. Auditing the reasonableness of these inputs and assumptions involved

especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters including the extent of specialized skill or knowledge needed.

The primary procedure we performed to address this critical audit matter included:

Reviewing the terms of the lease agreement

Utilizing personnel with specialized knowledge and skills in valuation to assist in developing our own independent estimates of fully collateralized incremental borrowing rates for certain newly executed and certain amended lease contracts by (i) developing synthetic credit ratings for the Company; (ii) estimating the incremental borrowing rate from market yield curves; and (iii) comparing the derived incremental borrowing rates associated with different lease terms to the estimated incremental borrowing rates developed by the Company.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2014.

New York, NY
November 8, 2022

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

	July 31, 2022	July 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 53,142	\$ 58,117
Accounts receivable, trade, net of allowance for doubtful accounts of \$44 and \$49 at July 31, 2022 and 2021, respectively	40,083	36,547
Inventories, net	8,151	9,043
Funds held for clients	4,903	8,212
Prepaid expenses and other current assets	3,551	4,958
Current assets of discontinued operations	—	96,522
Total current assets	109,830	213,399
Property and equipment, net	3,534	4,616
Operating lease right-of-use assets	19,655	18,253
Other assets	4,730	5,692
Long-term assets of discontinued operations	—	434,421
Total assets	\$ 137,749	\$ 676,381
LIABILITIES, CONTINGENTLY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 30,553	\$ 29,829
Accrued expenses	28,396	32,653
Funds held for clients	4,903	8,212
Current lease obligations	6,466	9,630
Other current liabilities	13,482	14,277
Current liabilities of discontinued operations	—	123,392
Total current liabilities	83,800	217,993
Convertible note payable	11,047	9,343
Long-term lease obligations	12,945	8,719
Other long-term liabilities	3,983	3,863
Long-term liabilities of discontinued operations	—	395,071
Total long-term liabilities	27,975	416,996
Total liabilities	111,775	634,989
Commitments and contingencies (Note 10)		
Contingently redeemable preferred stock, \$0.01 par value per share. 35,000 shares authorized, issued and outstanding at July 31, 2022 and 2021	35,180	35,180
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. 4,965,000 shares authorized at July 31, 2022 and 2021; zero shares issued and outstanding at July 31, 2022 and 2021	—	—
Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 60,529,558 issued and outstanding shares at July 31, 2022; 63,099,496 issued and outstanding shares at July 31, 2021	605	632
Additional paid-in capital	7,479,366	7,478,638
Accumulated deficit	(7,493,317)	(7,480,220)
Accumulated other comprehensive income	4,140	7,162
Total stockholders' (deficit) equity	(9,206)	6,212
Total liabilities, contingently redeemable preferred stock and stockholders' equity	\$ 137,749	\$ 676,381

The accompanying notes are an integral part of these consolidated financial statements.

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

	Fiscal Year Ended July 31,	
	2022	2021
Net revenue	\$ 203,272	\$ 226,256
Cost of revenue	161,736	178,552
Gross profit	41,536	47,704
Operating expenses:		
Selling, general and administrative	40,373	49,274
Total operating expenses	40,373	49,274
Operating income (loss)	1,163	(1,570)
Other income (expense):		
Interest income	58	11
Interest expense	(3,120)	(2,615)
Other gains, net	4,031	1,176
Total other income (expense)	969	(1,428)
Income (loss) from continuing operations before income taxes	2,132	(2,998)
Income tax expense	11,388	8,837
Net loss from continuing operations	(9,256)	(11,835)
Net loss from discontinued operations	(1,712)	(32,556)
Net loss	(10,968)	(44,391)
Less: Preferred dividends on redeemable preferred stock	(2,129)	(2,129)
Net loss attributable to common stockholders	\$ (13,097)	\$ (46,520)
Basic and diluted net loss per share attributable to common stockholders:		
Continuing operations	\$ (0.19)	\$ (0.23)
Discontinued operations	(0.03)	(0.52)
Basic and diluted net loss per share	\$ (0.22)	\$ (0.75)
Weighted average common shares used in:		
Basic and diluted loss per share	59,964	62,142

The accompanying notes are an integral part of these consolidated financial statements.

STEEL CONNECT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Fiscal Year Ended July 31,	
	2022	2021
Net loss	\$ (10,968)	\$ (44,391)
Other comprehensive income:		
Foreign currency translation adjustment	(3,699)	4,737
Pension liability adjustments, net of tax	677	(1,418)
Other comprehensive (loss) income	(3,022)	3,319
Comprehensive loss	<u>\$ (13,990)</u>	<u>\$ (41,072)</u>

The accompanying notes are an integral part of these consolidated financial statements.

STEEL CONNECT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balance at July 31, 2020	62,787,919	\$ 628	\$ 7,478,047	\$ (7,433,700)	\$ 3,843	\$ 48,818
Net loss	—	—	—	(44,391)	—	(44,391)
Preferred dividends	—	—	—	(2,129)	—	(2,129)
Issuance of common stock pursuant to employee stock purchase plan	9,145	—	4	—	—	4
Restricted stock grants, net of forfeitures	302,432	4	(4)	—	—	—
Share-based compensation	—	—	591	—	—	591
Other comprehensive items	—	—	—	—	3,319	3,319
Balance at July 31, 2021	63,099,496	\$ 632	\$ 7,478,638	\$ (7,480,220)	\$ 7,162	\$ 6,212
Net loss	—	—	—	(10,968)	—	(10,968)
Preferred dividends	—	—	—	(2,129)	—	(2,129)
Issuance of common stock pursuant to employee stock purchase plan	499	—	—	—	—	—
Restricted stock grants, net of forfeitures	(2,570,437)	(27)	27	—	—	—
Share-based compensation	—	—	701	—	—	701
Other comprehensive items	—	—	—	—	(3,022)	(3,022)
Balance at July 31, 2022	60,529,558	\$ 605	\$ 7,479,366	\$ (7,493,317)	\$ 4,140	\$ (9,206)

The accompanying notes are an integral part of these consolidated financial statements.

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

	Fiscal Year Ended July 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (10,968)	\$ (44,391)
Loss from discontinued operations, net of tax	1,712	32,556
Loss from continuing operations	(9,256)	(11,835)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	2,220	3,403
Amortization of deferred financing costs	102	137
Accretion of debt discount	1,704	1,289
Share-based compensation	701	591
Deferred taxes	9,041	7,230
Non-cash lease expense	9,425	9,953
Other (gains) losses, net	(4,087)	439
Changes in operating assets and liabilities:		
Accounts receivable, net	(5,256)	13,548
Inventories, net	323	1,628
Prepaid expenses and other current assets	1,065	(484)
Accounts payable and accrued expenses	801	(18,726)
Refundable and accrued income taxes, net	(471)	15,667
Other assets and liabilities	(9,446)	(30,950)
Net cash used in operating activities	(3,134)	(8,110)
Cash flows from investing activities:		
Additions to property and equipment	(1,485)	(1,217)
Proceeds from the disposition of property and equipment	—	182
Net cash used in investing activities	(1,485)	(1,035)
Cash flows from financing activities:		
Payments of preferred dividends	(2,129)	(2,129)
Payment of deferred financing costs	(95)	—
Repayments on capital lease obligations	(73)	(70)
Proceeds from issuance of common stock	—	4
Net cash used in financing activities	(2,297)	(2,195)
Net effect of exchange rate changes on cash and cash equivalents	(1,368)	597
Net increase in cash, cash equivalents and restricted cash	(8,284)	(10,743)
Cash, cash equivalents and restricted cash, beginning of period	66,329	77,072
Cash, cash equivalents and restricted cash, end of period	\$ 58,045	\$ 66,329
Cash flows from discontinued operations:		
Operating activities	\$ (6,738)	\$ 31,176
Investing activities	625	(2,291)
Financing activities	4,230	(7,642)
Net cash (used in) provided by discontinued operations	\$ (1,883)	\$ 21,243

The accompanying notes are an integral part of these consolidated financial statements.

STEEL CONNECT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) NATURE OF OPERATIONS

Steel Connect, Inc., (the "Company"), is a holding company which operates through its wholly-owned subsidiary ModusLink Corporation ("ModusLink" or "Supply Chain").

ModusLink is a supply chain business process management company serving clients in markets such as consumer electronics, communications, computing, medical devices, software and retail. ModusLink designs and executes elements in its clients' global supply chains to improve speed to market, product customization, flexibility, cost, quality and service. The Company also produces and licenses an entitlement management solution for activation, provisioning, entitlement subscription and data collection from physical goods (connected products) and digital products.

Disposition of IWCO Direct

On February 25, 2022, the Company entered into a transaction agreement (the "Transaction Agreement") with (a) IWCO Direct Holding Inc. ("IWCO Direct" or "Direct Marketing") and its indirect subsidiaries, (b) Cerberus Business Finance, LLC, in its capacities as collateral agent and administrative agent under a financing agreement (in such capacities, the "Agent"), dated as of December 15, 2017, between IWCO Direct, IWCO Direct's direct and indirect subsidiaries, the Agent and the lenders party thereto (the "Lenders") (the "Financing Agreement"), (c) the Lenders, (d) the Lenders or their respective designees listed on the signature pages to the Transaction Agreement under the caption "Participating Lender Purchasers" (the "Participating Lender Purchasers"), (e) SPH Group Holdings LLC (the "Sponsor") and (f) Instant Web Holdings, LLC (the "Buyer"), an entity owned by the Participating Lender Purchasers. On the Effective Date (as defined in the Transaction Agreement) and pursuant to the terms of the Transaction Agreement, the Company transferred all of its interests in IWCO Direct to the Buyer as part of a negotiated restructuring of the capital structure and certain financial obligations of IWCO Direct under the Financing Agreement as contemplated by the Transaction Agreement. The assets and liabilities and results of operations of the IWCO Direct business are reported as discontinued operations for all periods presented. See Note 3 for additional information.

All references made to financial data in this Annual Report on Form 10-K are to the Company's continuing operations, unless otherwise specifically noted.

Liquidity and Capital Resources

Steel Connect, Inc. (as parent company, the "Parent")

Historically, the Parent has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of its securities, borrowings from lending institutions and sale of facilities that were not fully utilized. The Parent believes it has access to adequate resources to meet its needs for normal operating costs, capital expenditures, debt obligations and working capital for at least the next twelve months. Upon a redemption request of the Preferred Stock (as discussed in Note 19), the Parent believes it is probable that it has access to adequate resources, including cash on hand and potential dividends from ModusLink, to pay the redemption price and continue its operations.

As of July 31, 2022, these resources include cash and cash equivalents and ModusLink's credit agreement with Umpqua Bank (the "Umpqua Revolver"), as lender and as agent. The Umpqua Revolver provides for a maximum credit commitment of \$12.5 million and a sublimit of \$5.0 million for letters of credit and expires on March 16, 2024. There was \$0.6 million outstanding on the Umpqua Revolver as of July 31, 2022. See Note 7 for further details regarding the Umpqua Revolver.

ModusLink believes that if dividends to the Parent are required, it would have access to adequate resources to meet its operating needs while remaining in compliance with the Umpqua Revolver's covenants over the next twelve months. However, there can be no assurances that ModusLink will continue to have access to its line of credit if its financial performance does not satisfy the financial covenants set forth in its financing agreement, which could also result in the acceleration of its debt obligations by its lender, adversely affecting liquidity.

As of July 31, 2022 and 2021, the Company had cash and cash equivalents of \$53.1 million and \$58.1 million, respectively. As of July 31, 2022, the Company's continuing operations had a net working capital of \$26.0 million.

Impact of COVID-19

The ongoing COVID-19 pandemic (in particular, the emergence of new variants of the virus across the globe) has caused, and continues to cause, significant disruptions in the U.S. and global economies. For example, national and local governments in the United States and around the world continue to implement measures to prevent the spread of COVID-19 and its variants, including travel bans, prohibitions on group events and gatherings, shutdowns of certain businesses, quarantines, curfews, and recommendations to practice physical distancing. Such measures have restricted and continue to restrict individuals' daily activities and curtail or cease many businesses' normal operations. The COVID-19 pandemic has adversely impacted, and is likely to further adversely impact, nearly all aspects of our business and markets, including our workforce and the operations of our clients, suppliers, and business partners. Beginning in March 2020, when the World Health Organization categorized COVID-19 as a pandemic and the President of the United States declared the COVID-19 outbreak a national emergency, we experienced impacts to our customers' demand, facility operations, supply chain, availability and productivity of personnel, while also working to comply with rapidly evolving international, federal, state and local restrictions and recommendations on travel and workplace health and safety. We experienced disruptions to our business continuity as a result of temporary closures of certain of ModusLink's facilities in the third and fourth quarters of fiscal year 2020, as well as the fourth quarter of fiscal year 2021. However, these temporary closures did not have a significant impact on ModusLink's operations.

An outbreak in Mainland China forced temporary lockdown orders from March 14, 2022 to March 20, 2022 in several cities in which ModusLink operates. In April and May 2022, there were further temporary lockdown orders which impacted several ModusLink facilities in China; however, ModusLink was able to resume operations on May 5, 2022 at one site and at another site on May 31, 2022. In July 2022, there were further temporary lockdown orders which impacted one ModusLink facility in China. In September and October 2022, there were further temporary lockdown order which impacted several ModusLink facilities in China. The lockdowns in China have not had a significant impact to ModusLink's operations through the filing of this Annual Report on Form 10-K. If the situation continues at this level or worsens, however, it could result in a potential adverse impact on our business, results of operations and financial condition. We will evaluate further actions if circumstances warrant.

Beginning in the second quarter of 2020, with the shutdown of the U.S. economy due to the COVID-19 pandemic, IWCO Direct's business was also significantly and adversely affected by a material reduction in customer mailing activities. Additionally, although IWCO Direct operated as an essential business, it had reduced operating levels and labor shifts due to lower sales volume during the third quarter of fiscal year 2020.

To help combat these impacts and mitigate the financial impact of the COVID-19 pandemic on our business, during fiscal year 2020 we took proactive measures by initiating cost reduction actions, including the waiver of board fees, hiring freezes, staffing and force reductions, company-wide salary reductions, bonus payment deferrals and temporary 401(k) match suspension. The temporary waiver of board fees and company-wide salary reduction actions taken in the prior fiscal year were fully restored prior to the beginning of fiscal year 2021, and the majority of salary reductions were repaid prior to the fiscal quarter ended January 31, 2021.

Additionally, against the backdrop of the reduction in IWCO Direct's business, the Company held extensive discussions with Cerberus about amending and extending IWCO Direct's credit facility with Cerberus under which there was approximately \$361.3 million outstanding as of January 31, 2022 that was to mature in December 2022. These discussions ultimately resulted in the disposition of IWCO Direct. For more information, see "Disposition of IWCO Direct" above and Note 3 below. We continue our focus on cash management and liquidity, which includes aggressive working capital management.

We continue to closely monitor the impact of COVID-19 on all aspects of our business and geographies, including its impact on our clients, employees, suppliers, vendors, business partners and distribution channels. We believe that such impacts could include, the continued disruption to the demand for our businesses' products and services; disruptions in or closures of our business operations or those of our customers or suppliers; the impact of the global business and economic environment on liquidity and the availability of capital; increased costs and delays in payments of outstanding receivables beyond normal payment terms; supply chain disruptions; uncertain demand; and the effect of any initiatives or programs that we may undertake to address financial and operational challenges faced by our customers. Despite indications of economic recovery, the severity of the impact of the COVID-19 pandemic on the Company's business in the fiscal year ending July 31, 2022 and beyond is difficult to predict and will depend on a number of uncertain factors and trends. Such factors and trends include, but are not limited to: the duration and severity of the virus and its current variants; the emergence of new variant strains; the availability and widespread use of vaccines; the impact of the global business and economic environment on liquidity and the availability of capital; the extent and severity of the impact on our customers and suppliers; and U.S. and foreign government actions that have been taken, or may be taken in the future, to mitigate adverse economic or other impacts or to mitigate the spread of the virus and its variants. The Company continues to monitor for any developments or updates to COVID-19 guidelines from public health and governmental authorities, as well as the protection of the health and safety of its personnel, and is continuously working to ensure that its health and safety protocols, business continuity plans and crisis management protocols are in place to help mitigate any negative impacts of the COVID-19 pandemic on the Company's employees, business or operations.

Proposed Merger with Steel Holdings

On June 12, 2022, the Company, Steel Partners Holdings L.P. (“Steel Holdings”) and SP Merger Sub, Inc., a wholly owned subsidiary of Steel Holdings (“Merger Sub”), entered into an agreement and plan of merger (the “Merger Agreement”), pursuant to which Merger Sub will merge with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly owned subsidiary of Steel Holdings. The Merger Agreement provides that each share of the Company’s common stock issued and outstanding immediately prior to the effective time of the Merger (other than dissenting shares and shares owned by the Company, Steel Holdings or any of their respective subsidiaries) will, subject to the terms and conditions set forth in the Merger Agreement, be converted into the right to receive (i) \$1.35 in cash, without interest and (ii) one contingent value right to receive a pro rata share of the proceeds received by the Company, Steel Holdings or any of their affiliates with respect to the sale, transfer or other disposition of all or any portion of the assets currently owned by ModusLink within two years of the Merger’s closing date, to the extent such proceeds exceed \$80 million plus certain related costs and expenses.

Steel Holdings and certain of its affiliates have also entered into a Voting and Support Agreement pursuant to which, among other things, they have agreed to vote all shares of common stock and Series C Preferred Stock beneficially owned by them in favor of the adoption of the Merger Agreement and the Merger and any alternative acquisition agreement approved by the Company’s Board of Directors (acting on the recommendation of the special committee (the “Special Committee”) of independent and disinterested directors formed to consider and negotiate the terms and conditions of the Merger and to make a recommendation to our Board of Directors).

The Merger Agreement includes a “go-shop” period that expired at 11:59 p.m., Eastern time, on July 12, 2022, during which the Company was authorized to actively solicit and consider alternative acquisition proposals.

The closing of the Merger is conditioned upon receipt of approval of the Merger from (i) the holders of a majority in voting power of the outstanding shares of common stock and Series C Preferred Stock of the Company (voting on an as converted to shares of common stock basis), voting together as a single class, (ii) a majority of the outstanding shares of common stock of the Company not owned, directly or indirectly, by Steel Holdings and its affiliates and related parties, and any other officers or directors of the Company, and (iii) the holders of a majority of the outstanding shares of Series C Preferred Stock of the Company, voting as a separate class, as well as other customary closing conditions. Accordingly, there can be no assurance that the Company will be able to complete the Merger on the expected timeline or at all. See “Part I, Item 1A. Risk Factors” included in this Report.

Our Board of Directors, acting on the unanimous recommendation of the Special Committee, and the Board of Directors of Steel Partner Holdings GP Inc., the general partner of Steel Holdings, approved the Merger Agreement and the transactions contemplated by the Merger Agreement (such transactions, collectively, the “Transactions”) and resolved to recommend the stockholders adopt the Merger Agreement and approve the Transactions. The Special Committee, which is comprised solely of independent and disinterested directors of the Company who are unaffiliated with Steel Holdings, exclusively negotiated the terms of the Merger Agreement with Steel Holdings, with the assistance of its independent financial and legal advisors.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements reflect the application of certain significant accounting policies described below.

Principles of Consolidation

The accompanying consolidated financial statements of the Company include the results of its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Company accounts for investments in businesses in which it owns between 20% and 50% of the voting interest using the equity method, if the Company has the ability to exercise significant influence over the investee company. All other investments in privately held businesses over which the Company does not have the ability to exercise significant influence, or for which there is not a readily determinable market value, are accounted for under the cost method of accounting.

Use of Estimates

The preparation of the Company’s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) 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 financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates including those related to: (1) revenue recognition; (2) valuation allowances for trade and other receivables; (3) the valuation of long-lived assets; (4) contingencies, including litigation reserves; (5) restructuring charges and

related severance expenses; (6) going concern assumptions; (7) accrued pricing and tax related liabilities; and, (8) incremental borrowing rate to determine present value of lease payments.. Accounting estimates are based on historical experience and various assumptions that are considered reasonable under the circumstances. However, because these estimates inherently involve judgments and uncertainties, actual results could differ materially from those estimated.

Revenue Recognition

The Company recognizes revenue from its contracts with customers primarily from the sale of marketing solutions offerings and supply chain management services. Revenue is recognized when control of the promised goods or services is transferred to a customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. For ModusLink's supply chain management services arrangements, the goods and services are considered to be transferred over time as they are performed. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Supply Chain Management Services

ModusLink's revenue primarily comes from the sale of supply chain management services to its clients. Amounts billed to customers under these arrangements include revenue attributable to the services performed as well as for materials procured on the customer's behalf as part of its service to them. The majority of these arrangements consist of two distinct performance obligations (i.e., warehousing/inventory management service and a separate kitting/packaging/assembly service), revenue related to each of which is recognized over time as services are performed using an input method based on the level of efforts expended.

Other

Other revenue consists of cloud-based software subscriptions, software maintenance and support service contracts, fees for professional services and fees for the sale of perpetual software licenses in ModusLink's e-Business operations. Except for perpetual software licenses, revenue related to these arrangements is recognized on a straight-line basis over the term of the agreement or over the term of the agreement in proportion to the costs incurred in satisfying the obligations under the contract. Revenue from the sale of perpetual licenses is recognized at a point in time upon execution of the relevant license agreement and when delivery has taken place.

Performance Obligations and Standalone Selling Price

The Company's contracts with customers may include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require certain judgment. For arrangements with multiple performance obligations, the Company allocates revenue to each performance obligation based on its relative standalone selling price. Judgment is required to determine the standalone selling price for each distinct performance obligation. The Company generally determines standalone selling prices based on the prices charged to customers and uses a range of amounts to estimate standalone selling prices when we sell each of the products and services separately and need to determine whether there is a discount that needs to be allocated based on the relative standalone selling prices of the various products and services. The Company typically has more than one range of standalone selling prices for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, the Company may use information such as the type of customer and geographic region in determining the range of standalone selling prices.

Variable Consideration

The Company may provide credits or incentives to customers, which are accounted for as variable consideration when estimating the transaction price of the contract and amounts of revenue to recognize. The amount of variable consideration to include in the transaction price is estimated at contract inception using either the estimated value method or the most likely amount method based on the nature of the variable consideration. These estimates are updated at the end of each reporting period as additional information becomes available and revenue is recognized only to the extent that it is probable that a significant reversal of any amounts of variable consideration included in the transaction price will not occur.

Principal Versus Agent Revenue Recognition

For revenue generated from contracts with customers involving another party, the Company considers whether it maintains control of the specified goods or services before they are transferred to the customer, as well as other indicators such as the party primarily responsible for fulfillment and discretion in establishing price. Revenues are recognized on a gross basis if the Company is acting in the capacity of a principal and on a net basis if its acting in the capacity of an agent.

Contract Balances

Timing of revenue recognition may differ from timing of invoicing to customers. The Company records contract assets and liabilities related to its contracts with customers as follows:

- Accounts receivable when revenue is recognized prior to receipt of cash payments and if the right to such amounts is unconditional and solely based on the passage of time.
- Contract assets when the Company recognizes revenue based on efforts expended but the right to such amount is conditional upon satisfaction of another performance obligation. Contract assets are primarily comprised of fees related to marketing solutions offerings and supply chain management services. The Company's contract assets are all short-term in nature and are included in prepaid expenses and other current assets in the Company's consolidated balance sheets.
- Deferred revenue when cash payments are received or due in advance of performance. Deferred revenue is primarily comprised of fees related to supply chain management services, cloud-based software subscriptions and software maintenance and support service contracts, which are generally billed in advance. Deferred revenue also includes other offerings for which we have been paid in advance and earn the revenue when we transfer control of the product or service. The deferred revenue balance is classified as a component of other current liabilities and other long-term liabilities on the Company's consolidated balance sheets.

Accounts Receivable and Allowance for Doubtful Accounts

The Company's unsecured accounts receivable are stated at original invoice amount less an estimate made for doubtful receivables based on a monthly review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering each customer's financial condition, credit history, current economic conditions, whether any amounts are currently past due and the length of time accounts may be past due. The Company writes off accounts receivable when management deems them uncollectible and records recoveries of accounts receivable previously written off when received. When accounts receivable are considered past due, the Company generally does not charge interest on past due balances.

The allowance for doubtful accounts consisted of the following:

	July 31, 2022	July 31, 2021
	(In thousands)	
Balance at beginning of year	\$ 49	\$ 134
Provisions charged to expense	—	—
Accounts written off	—	(6)
Recovered	(5)	(79)
Balance at end of year	<u>\$ 44</u>	<u>\$ 49</u>

Foreign Currency Translation

All assets and liabilities of the Company's foreign subsidiaries, whose functional currency is the local currency, are translated to U.S. dollars at the rates in effect at the balance sheet date. All amounts in the consolidated statements of operations are translated using the average exchange rates in effect during the year. Resulting translation adjustments are reflected in the accumulated other comprehensive income (loss) component of stockholders' equity. Settlement of receivables and payables in a foreign currency that is not the functional currency result in foreign currency transaction gains and losses. Foreign currency transaction gains and losses are included in "Other gains (losses), net" in the consolidated statements of operations.

Cash, Cash Equivalents and Short-term Investments

Cash equivalents consist of highly liquid investments with an original maturity of three months or less at the time of purchase. Investments with maturities greater than three months to twelve months at the time of purchase are considered short-term investments. Cash and cash equivalents consisted of the following:

	July 31, 2022	July 31, 2021
	(In thousands)	
Cash and bank deposits	\$ 21,386	\$ 20,915
Money market funds	31,756	37,202
	<u>\$ 53,142</u>	<u>\$ 58,117</u>

Fair Value Measurements

The Company measures certain assets and liabilities at fair value (see Note 20 - "Fair Value Measurements"). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values of assets and liabilities are determined based on a three-level measurement input hierarchy. Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the measurement date. Level 2 inputs are other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs can include quoted prices in active markets for similar assets or liabilities, quoted prices in a market that is not active for identical assets or liabilities, or other inputs that can be corroborated by observable market data. Level 3 inputs are unobservable for the asset or liability when there is little, if any, market activity for the asset or liability. Level 3 inputs are based on the best information available and may include data developed by the Company.

Funds Held for Clients

Funds held for clients represent cash that is restricted for use solely for the purposes of satisfying the obligations to remit clients' customer funds to the Company's clients. These funds are classified as a current asset and a corresponding current liability on the Company's consolidated balance sheets.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by both moving averages and the first-in, first-out methods. A provision for excess or obsolete inventory is recorded based upon an analysis that considers current inventory levels, historical usage patterns and future sales expectations.

Accounting for Impairment of Long-Lived Assets

The Company tests long-lived assets or group of assets for recoverability whenever events or changes in circumstances indicate that the Company may not be able to recover the asset's carrying amount. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The Company evaluates recoverability generally by determining whether the undiscounted cash flows expected to result from the use and eventual disposition of that asset or group cover the carrying value at the evaluation date. If the undiscounted cash flows are not sufficient to recover the carrying value, the Company measures an impairment loss as the excess of the carrying amount of the long-lived asset or group over its fair value. Management may use third-party valuation experts to assist in its determination of fair value.

Property and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Depreciation and amortization is computed by applying the straight-line method to the estimated useful lives of the respective assets. Changes in estimated useful lives and salvage values of the Company's assets and the related depreciation and amortization expense are accounted for prospectively. The Company capitalizes certain computer software development costs when incurred in connection with developing or obtaining computer software for internal use. The estimated useful lives are as follows:

<u>Category</u>	<u>Useful Lives</u>
Machinery and equipment	5 years
Leasehold improvements	Shorter of the lease term or the estimated useful life of the asset
Software	5 years
Computer hardware	3 years
Other	5 years

Leases

The Company leases office space, warehouse facilities, equipment and automobiles under operating leases. These leases may also include rent escalation clauses or lease incentives in the form of construction allowances and rent reduction. In determining the lease term used in the lease right-of-use ("ROU") asset and lease liability calculations, the Company considers various factors such as market conditions and the terms of any renewal or termination options that may exist. When deemed reasonably certain, the renewal and termination options are included in the determination of the lease term and calculation of the lease ROU asset and lease liability. The Company is typically required to make fixed minimum rent payments, variable rent payments primarily based on performance, or a combination thereof, directly related to its ROU asset. The Company is also often required, by the lease, to pay for certain other costs including real estate taxes, insurance, common area maintenance fees and/or certain other costs, which may be fixed or variable, depending upon the terms of the respective lease agreement. To the extent these payments are fixed, the Company has included them in calculating the lease ROU assets and lease liabilities.

The Company calculates lease ROU assets and lease liabilities as the present value of fixed lease payments over the reasonably certain lease term beginning at the commencement date. When discount rates implicit in leases cannot be readily determined, the Company uses its incremental borrowing rate based on information available at the commencement date in determining the present value of future payments. The determination of incremental borrowing rates involves significant judgment by management. The weighted average interest rate used for operating leases for the year ended July 31, 2022 and July 31, 2021 was 3.9% and 3.0%, respectively. The weighted average interest rate used for finance leases for the years ended July 31, 2022 and July 31, 2021 were 3.9% and 3.9%, respectively.

For operating leases, fixed lease payments are recognized as operating lease cost on a straight-line basis over the lease term. For finance leases, the ROU asset is depreciated on a straight-line basis over the remaining lease term, along with recognition of interest expense associated with accretion of the lease liability. For leases with a lease term of 12 months or less ("short-term lease"), any fixed lease payments are recognized on a straight-line basis over such term and are not recognized on the consolidated balance sheets. Variable lease cost for both operating and finance leases, if any, is recognized as incurred.

Restructuring Costs

Restructuring and other exit costs may include employee separation costs, asset impairment charges, contract exit costs and costs of facility consolidation and closure. The Company records restructuring and other exit costs at their fair value when incurred. In accordance with existing benefit arrangements, employee termination costs are accrued when the restructuring actions are probable and estimable. Employee separation costs may also include one-time termination benefits recognized as a liability at estimated fair value, at the time of communication to employees, unless future service is required beyond the minimum retention period, in which case the costs are recognized ratably over the future service period.

Income Taxes

Income taxes are accounted for using the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This methodology is subjective and requires significant estimates and judgments in the determination of the recoverability of deferred tax assets and in the calculation of certain tax liabilities.

Income tax accounting standards prescribe: (1) a minimum recognition threshold that an income tax benefit arising from an uncertain income tax position taken, or expected to be taken, on an income tax return is required to meet before being recognized in the financial statements and (2) the measurement of the income tax benefits recognized from such positions. The

Company's accounting policy is to classify uncertain income tax positions that are not expected to be resolved in one year as non-current income tax liabilities and to classify potential interest and penalties on uncertain income tax positions as elements of the provision for income taxes in its financial statements. See Note 15 - "Income Taxes," for additional information.

Pension Plans

The Company sponsors defined benefit pension plans covering certain of its employees in the Netherlands and Japan. In accordance with accounting standards for employee pension benefits, the Company recognizes on a plan-by-plan basis the unfunded status of its pension plans in the consolidated financial statements and measures its pension plan assets and benefit obligations as of July 31. The obligation for the Company's pension plans and the related annual costs of employee benefits are calculated based on several long-term assumptions, including discount rates and expected mortality for employee benefit liabilities, rates of return on plan assets and expected annual rates for salary increases for employee participants.

Share-Based Compensation Plans

All share-based payment awards to employees and directors are measured based upon their grant date fair values and expensed over the period during which the employee or director is required to provide service in exchange for the award (the vesting period). The Company accounts for forfeitures in the period in which they occur.

Deferred Debt Issue Costs

Costs to issue revolving credit facilities are capitalized and deferred when incurred and subsequently amortized on a straight-line basis over the term of the credit facility. Deferred debt issuance costs are presented in the Company's consolidated balance sheets in Other Assets.

Major Clients and Concentration of Credit Risk

For the fiscal years ended July 31, 2022 and 2021, the Company's 10 largest clients accounted for approximately 78% and 81% of consolidated net revenue from continuing operations, respectively. Two customers accounted for approximately 31% and 12% of the Company's consolidated net revenue from continuing operations for the fiscal year ended July 31, 2022, and one customer accounted for 42% of the Company's consolidated net revenue from continuing operations for the fiscal year ended July 31, 2021. No other customers accounted for greater than 10% of consolidated net revenue in these periods. Three clients, associated with the Supply Chain segment, accounted for greater than 10% of the Company's consolidated net accounts receivables as of July 31, 2022. The first, second, and third client accounted for approximately 31%, 18%, and 17%, respectively, of the Company's consolidated net accounts receivable balance as of July 31, 2022. Three clients, associated with the Supply Chain segment, accounted for greater than 10% of the Company's consolidated net accounts receivables as of July 31, 2021. The first, second, and third client accounted for approximately 25%, 22%, and 13%, respectively, of the Company's consolidated net accounts receivable balance as of July 31, 2021.

Financial instruments which potentially subject the Company to concentrations of credit risk are cash, cash equivalents and accounts receivable. The Company's cash equivalent portfolio is diversified and consists primarily of short-term investment grade securities placed with high credit quality financial institutions. Cash and cash equivalents are maintained at accredited financial institutions, and the balances associated with funds held for clients are at times without and in excess of federally insured limits. The Company has never experienced any losses related to these balances and does not believe that it is subject to unusual credit risk beyond the normal credit risk associated with financial institutions.

Reclassification

On the statement of cash flows for the years ended July 31, 2022 and 2021, the Company reclassified the non-cash portion of deferred tax expense which totaled \$9.0 million and \$7.2 million from Other Assets and Liabilities to Deferred Taxes. This reclassification was made to conform with current reporting and had no impact on net loss or stockholder's equity in either period.

Adoption of New Accounting Standards

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which amends the existing guidance relating to the accounting for income taxes. This ASU is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles of accounting for income taxes and to improve the consistent application of U.S. GAAP for

other areas of accounting for income taxes by clarifying and amending existing guidance. The new guidance was effective for the Company's first quarter of the fiscal year ending July 31, 2022 (Fiscal Year 2022). The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

In March 2020 and January 2021, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and ASU No. 2021-01, *Reference Rate Reform (Topic 848): Scope*, respectively (collectively, "Topic 848"). Topic 848 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by Topic 848 are effective for all entities as of March 12, 2020 through December 31, 2022. The Company adopted this standard after LIBOR was discontinued on December 31, 2021. The adoption of this standard did not materially impact the Company's condensed consolidated financial statements as the Company did not have any hedging relationships or transactions impacted by the discontinuance of LIBOR.

Accounting Standards Issued and Not Yet Implemented

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, an ASU that requires measurement and recognition of expected credit losses for financial instruments, including trade receivables, based on historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The ASU will be effective for the Company beginning in the first quarter of the fiscal year ending July 31, 2024 on a modified retrospective basis, which requires a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40)*. The amendment in this update simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments and convertible preferred stock. This update also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions and requires the application of the if-converted method for calculating diluted earnings per share. The update also requires entities to provide expanded disclosures about the terms and features of convertible instruments, how the instruments have been reported in the entity's financial statements and information about events, conditions and circumstances that can affect how to assess the amount or timing of an entity's future cash flows related to those instruments. The guidance is effective for interim and annual periods beginning in our fiscal year ending July 31, 2025, with early adoption permitted. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. The ASU requires annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. This guidance is effective for all entities for annual periods beginning after December 15, 2021 and early adoption is permitted. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

Other new pronouncements issued but not effective until after July 31, 2022 are not expected to have a material impact on our financial condition, results of operations or liquidity.

(3) DISCONTINUED OPERATIONS

As discussed in Note 1, on February 25, 2022, the Company completed the disposition of IWCO Direct. The Company received no cash consideration for the disposition (the entire transaction being referred to as the "IWCO Direct Disposal"). As of the Disposal Date and subject to the terms and conditions of the Transaction Agreement, the parties entered into certain mutual releases as fully set forth in the Transaction Agreement. In addition, as part of the overall transaction, the Buyer issued a note in the principal amount of \$6.9 million payable to the Company as consideration for intercompany obligations owed by IWCO Direct to the Company (the "Subordinated Note"). The Subordinated Note is subordinated to the obligations under the Financing Agreement (including any amendments or other modifications thereto) and matures on the date that is the earlier of (a) the later of (i) August 25, 2027 and (ii) the date that is six months after the maturity of the Financing Agreement, or (b) the date that is six months after repayment in full of the obligations under the Financing Agreement. Due to the subordinated nature of the Subordinated Note and the assessment of collectability, the Company determined the fair value of the Subordinated Note was zero.

The Company deconsolidated IWCO Direct as of the Disposal Date as the Company no longer held a controlling financial interest in IWCO Direct as of that date. The Company did not have any amounts included in accumulated other comprehensive loss associated with IWCO Direct at the time of deconsolidation. The disposal of IWCO Direct represents a strategic shift to exit the direct marketing business and its results are reported as discontinued operations for all periods presented.

A summary of the results of the discontinued operations is as follows:

	Fiscal Year Ended July 31,	
	2022	2021
Net revenue	\$ 165,542	\$ 387,510
Cost of revenue	156,697	305,601
Gross profit	8,845	81,909
Operating expenses:		
Selling, general and administrative ^(a)	30,744	47,254
Amortization of intangible assets ^(b)	9,303	20,258
Impairment of goodwill ^(c)	—	25,658
Total operating expenses	40,047	93,170
Operating loss	(31,202)	(11,261)
Other income (expense):		
Gain upon deconsolidation of IWCO Direct	35,457	—
Interest income	—	3
Interest expense	(16,111)	(28,524)
Total other income (expense), net	19,346	(28,521)
Loss from discontinued operations before income taxes	(11,856)	(39,782)
Income tax benefit	10,144	7,226
Loss from discontinued operations, net of tax	\$ (1,712)	\$ (32,556)

(a) During the year ended July 31, 2021, the Company recorded \$3.7 million of restructuring expenses for IWCO Direct as a result of its Competitive Improvement Plan.

(b) During the fiscal year ended July 31, 2022 and 2021, the Company recorded \$9.3 million and \$20.3 million of amortization expense for the Direct Marketing reporting unit.

(c) During the fiscal year ended July 31, 2021, the Company recorded a pre-tax goodwill impairment charge of \$25.7 million for the Direct Marketing reporting unit due to a decline in IWCO Direct's fair value as a result of customer exits and decreasing demand for direct marketing products.

The major classes of assets and liabilities included in discontinued operations related to IWCO Direct are presented in the table below.

	July 31, 2021
	(in thousands)
ASSETS	
Cash and cash equivalents	\$ 38,814
Accounts receivable, trade, net	33,258
Inventories, net	7,186
Other current assets	17,264
Current assets of discontinued operations	\$ 96,522
Property and equipment, net	54,247
Goodwill ^(a)	231,470
Other intangible assets, net ^(b)	115,005
Operating lease right-of-use assets	32,583
Other assets	1,116
Long-term assets of discontinued operations	\$ 434,421
LIABILITIES	
Accounts payable	\$ 25,688
Accrued expenses	74,218
Current lease obligations	4,047
Current portion of long-term debt ^(c)	5,602
Other current liabilities	13,837
Current liabilities of discontinued operations	\$ 123,392
Long-term debt, net of current portion ^(c)	358,189
Lease obligations	30,207
Other long-term liabilities	6,675
Long-term liabilities of discontinued operations	\$ 395,071

(a) The Company performed an interim impairment test of Direct Marketing's goodwill and other long-lived assets as of April 30, 2021. The Company determined that the goodwill was impaired, and recorded a non-cash impairment charge of \$25.7 million classified in Loss from discontinued operations, net of tax, for the three months ended April 30, 2021. This amount also represents the Company's accumulated goodwill impairment loss as of July 31, 2021.

(b) The Company performed a qualitative assessment of whether it was more likely than not that its other intangibles assets were impaired as of July 31, 2021. The Company reviewed its previous forecasts and assumptions based on the Company's current projections, that are subject to various risks and uncertainties, including forecasted revenues, expenses and cash flows, including the duration and extent of impact to our businesses from the COVID-19 pandemic. Based upon that assessment, the Company concluded it was not more likely than not that the other intangible assets were impaired as of July 31, 2021.

(c) The balances relate to the Cerberus Term Loan balance outstanding at July 31, 2021.

(4) INVENTORIES

Inventories, net consisted of the following:

	July 31,	
	2022	2021
	(in thousands)	
Raw materials	\$ 7,330	\$ 8,299
Work-in-process	124	76
Finished goods	697	668
	\$ 8,151	\$ 9,043

(5) PROPERTY AND EQUIPMENT

Property and equipment at cost, consists of the following:

	July 31,	
	2022	2021
	(In thousands)	
Machinery and equipment	12,632	16,865
Leasehold improvements	9,994	11,921
Software	34,161	50,283
Computer hardware	5,317	9,788
Other	2,475	2,875
	64,579	91,732
Less: accumulated depreciation and amortization	(61,045)	(87,116)
Property and equipment, net	\$ 3,534	\$ 4,616

During the year ended July 31, 2022, the Company disposed of approximately \$25.9 million of property, plant and equipment, with a net book value of \$5.0 thousand.

(6) ACCRUED EXPENSES AND OTHER LIABILITIES

The following tables reflect the components of "Accrued expenses" and "Other current liabilities":

	July 31,	
	2022	2021
	(In thousands)	
Accrued Expenses		
Accrued compensation	\$ 5,099	\$ 7,163
Accrued audit, tax and legal	4,564	3,147
Accrued taxes	3,344	3,686
Accrued occupancy costs	1,671	1,728
Accrued IT costs	1,108	509
Accrued contract labor	792	930
Accrued freight	782	742
Accrued other	11,036	14,748
Total accrued expenses	\$ 28,396	\$ 32,653

Accrued other for the year ended July 31, 2022 and 2021 was primarily comprised of accrued price concessions for customer programs that have unit price or management fee true-ups based on their contract agreements.

	July 31,	
	2022	2021
	(In thousands)	
Other Current Liabilities		
Accrued pricing liabilities	\$ 9,435	\$ 10,295
Deferred revenue - current	2,705	2,212
Other	1,342	1,770
Total other current liabilities	\$ 13,482	\$ 14,277

As of July 31, 2022 and 2021, the Company had accrued pricing liabilities of approximately \$9.4 million and \$10.3 million, respectively. During the fiscal years ended July 31, 2022 and 2021, the Company concluded that certain accrued pricing liabilities had been extinguished, and the Company derecognized and recorded in Other gains, net \$0.9 million and \$3.2 million, respectively. As previously reported by the Company, several principal adjustments were made to its historic financial statements for periods ended 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, 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 been 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 or any of the accrued pricing liabilities based upon the expiration of statutes of limitations, and due in part to the nature of the interactions with its clients. The remaining accrued pricing liabilities as of July 31, 2022 will be derecognized when there is sufficient information for the Company to conclude that such liabilities are not subject to escheatment and have been extinguished, which may occur through payment, legal release, or other legal or factual determination. The Company has not provided for any provision for interest and or penalties related to escheatment as it has concluded that such is not probable to occur and any potential interest and penalties cannot be reasonably estimated.

(7) DEBT

The components of debt and a reconciliation to the carrying amount of long-term debt is presented in the table below:

	July 31,	
	2022	2021
	(In thousands)	
Unsecured		
7.50% Convertible Senior Note due March 1, 2024	\$ 14,940	\$ 14,940
Credit Facilities		
Umpqua Revolver	—	—
Less: unamortized discounts and issuance costs ^(a)	(3,972)	(5,793)
Total debt, net	\$ 10,968	\$ 9,147

(a) Amounts include deferred debt issuance costs related to credit facilities of \$79 thousand and \$196 thousand as of July 31, 2022 and July 31, 2021, respectively, which are presented in Other Assets.

7.50% Convertible Senior Note

On February 28, 2019, the Company entered into a 7.50% Convertible Senior Note Due 2024 Purchase Agreement (the "SPHG Note Purchase Agreement") with SPH Group Holdings LLC ("SPHG Holdings"), whereby SPHG Holdings agreed to loan the Company \$14.9 million in exchange for a 7.50% Convertible Senior Note due 2024 (the "SPHG Note"). SPHG Holdings has the right, at its option, prior to the close of business on the business day immediately preceding the maturity date of the SPHG Note, to convert the SPHG Note or a portion thereof that is \$1,000 or an integral multiple thereof, into shares of common stock (if the Company has not received a required stockholder approval) or cash, shares of common stock or a combination of cash and shares of common stock, as applicable (if the Company has received a required stockholder approval), at an initial conversion rate of 421.2655 shares of common stock, which is equivalent to an initial conversion price of approximately \$2.37 per share (subject to adjustment as provided in the SPHG Note) per \$1,000 principal amount of the SPHG Note, subject to, and in accordance with, the settlement provisions of the SPHG Note. As of July 31, 2022, the if-converted value of the SPHG Note did not exceed the principal value of the SPHG Note. As of July 31, 2022, the remaining period over which the unamortized discount will be amortized is 19 months. As of July 31, 2022 and July 31, 2021, the net carrying value of the SPHG Note was \$11.0 million and \$9.3 million, respectively. As of July 31, 2022 and July 31, 2021, the effective interest rate on the SPHG Note, including accretion of the discount, is 27.8%. The following tables reflect the components of the SPHG Note:

	July 31,	
	2022	2021
	(In thousands)	
Carrying amount of equity component	\$ 8,200	\$ 8,200
Principal amount of note	\$ 14,940	\$ 14,940
Unamortized debt discount	(3,893)	(5,597)
Net carrying amount	\$ 11,047	\$ 9,343

During the fiscal years ended July 31, 2022 and 2021, the Company recognized interest expense associated with the SPHG Note as follows:

	Fiscal Year Ended July 31,	
	2022	2021
	(In thousands)	
Interest expense related to contractual interest coupon	\$ 1,136	\$ 1,136
Interest expense related to accretion of the discount	1,704	1,290
	<u>\$ 2,840</u>	<u>\$ 2,426</u>

Umpqua Revolver

On March 16, 2022, ModusLink, as borrower, entered into a new credit agreement with Umpqua Bank as lender and as agent. The Umpqua Revolver provides for a maximum credit commitment of \$12.5 million and a sublimit of \$5.0 million for letters of credit and expires on March 16, 2024. Concurrent with signing the Umpqua Revolver ModusLink submitted a notice of termination to MidCap Financial Trust for its \$12.5 million revolving credit facility (the "MidCap Credit Facility"), which was set to expire on December 31, 2022. There was no balance outstanding on the Midcap Credit Facility at the time of its termination. As of July 31, 2022, ModusLink was in compliance with the Umpqua Revolver's covenants, and believes it will remain in compliance with the Umpqua Revolver's covenants for the next twelve months. As of July 31, 2022, ModusLink had available borrowing capacity of \$11.9 million and there was \$0.6 million outstanding for letters of credit.

The remaining interest expense of \$0.3 million and \$0.2 million recorded for the fiscal years ended July 31, 2022 and 2021 relate to bank fees for the Umpqua Revolver and MidCap Credit Facility, and bank fees for the MidCap Credit Facility, respectively.

(8) LEASES

The Company has operating and finance leases for office space, office equipment, warehouse space and automobiles. The leases have remaining terms of up to five years, some of which include options to purchase, extend or terminate the leases, and management has assessed such terms when determining the lease term for accounting purposes. The Company's current lease arrangements expire through 2027.

The Company's leases do not include any residual value guarantees, and therefore none were considered in the calculation of the operating ROU and operating lease liability balances. The Company has leases that contain variable payments, most commonly in the form of common area maintenance charges, which are based on actual costs incurred. These variable payments were excluded from the calculation of the operating ROU asset and operating lease liability balances since they are not fixed or in-substance fixed payments.

For leases with terms greater than 12 months, the Company records the related operating ROU assets and operating lease liabilities at the present value of lease payments over the lease terms. For leases with an initial term of 12 months or less (with purchase options or extension options that are not reasonably certain to be exercised), the Company does not record them on the balance sheet, but instead recognizes lease expense on a straight-line basis over the terms of the leases.

Lease Expense

The components of the Company's lease expense are presented below:

	Fiscal Year Ended July 31,	
	2022	2021
	(In thousands)	
Operating lease cost	\$ 9,973	\$ 10,555
Short-term lease expense	1,488	1,627
Sublease income	748	—
Variable lease cost	24	28
Interest on finance lease liabilities	3	6
	<u>\$ 12,236</u>	<u>\$ 12,216</u>

Lease Commitments

The Company's future minimum lease payments required under operating and finance leases that have commenced as of July 31, 2022 were as follows:

	Operating Leases	Finance Leases
	(In thousands)	
2023	\$ 7,151	\$ —
2024	4,254	—
2025	3,687	—
2026	2,718	—
2027	2,101	—
Thereafter	—	—
Total lease payments	19,911	—
Less: imputed interest	538	—
Present value of lease payments	19,373	—
Less: current lease obligations	6,428	—
Long-term lease obligations	\$ 12,945	\$ —

In order to calculate the operating ROU asset and operating lease liability for a lease, a lessee is required to apply a discount rate equal to the rate implicit in the lease whenever that rate is readily determinable. The Company's lease agreements generally do not provide a readily determinable implicit rate, nor is the rate available to the Company from its lessors and, therefore, the Company determines an incremental borrowing rate to determine the present value of the lease payments. The incremental borrowing rate represents the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar lease term to obtain an asset of similar value.

Additional Lease Information

Additional information related to the Company's leases as of July 31, 2022 was as follows:

Weighted average remaining lease term:

Operating leases	3.7 years
Finance leases	0.4 years

Weighted average discount rate:

Operating leases	3.9%
Finance leases	3.9%

Supplemental Cash Flow Information

Supplemental cash flow information related to the cash paid for amounts included in measurement of lease liabilities during the fiscal year ended July 31, 2022 and 2021 was as follows:

	Fiscal Year Ended July 31,	
	2022	2021
	(In thousands)	
Operating cash flows from operating leases	\$ 9,653	\$ 10,705
Operating cash flows from finance leases	\$ 3	\$ 6
Financing cash flows from finance leases	\$ 73	\$ 70

(9) RESTRUCTURING ACTIVITIES

ModusLink Restructuring Activities

During the fiscal year ended July 31, 2021, ModusLink implemented a strategic plan to reorganize its sales function and the e-Business operations. The restructuring charges associated with this plan were primarily composed of employee termination costs. In November 2021, ModusLink amended its strategic plan to include reorganizing its supply chain operations and recorded a restructuring charge of approximately \$0.9 million during the three months ended January 31, 2022. In July 2022, ModusLink reorganized its supply chain operations in Ireland and recorded a restructuring charge of approximately \$0.6 million during the three months ended July 31, 2022. The restructuring charges recorded in fiscal year ended July 31, 2022 were primarily composed of employee termination costs.

The table below summarizes restructuring charges in the statements of operations for employee termination costs:

(in thousands)	Fiscal Year Ended July 31,	
	2022	2021
Cost of revenue	\$ 1,200	\$ 888
Selling, general and administrative	313	867
	<u>\$ 1,513</u>	<u>\$ 1,755</u>

Changes to the restructuring liability during the fiscal year ended July 31, 2022 were as follows:

	(in thousands)
Balance as of July 31, 2021	\$ 1,059
Costs incurred	1,513
Cash payments	(1,580)
Change in estimates	(100)
Balance as of July 31, 2022	<u>\$ 892</u>

(10) COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On April 13, 2018, a purported shareholder, Donald Reith, filed a verified complaint, Reith v. Lichtenstein, et al., 2018-277 (Del. Ch.) in the Delaware Court of Chancery. The complaint alleges class and derivative claims for breach of fiduciary duty and/or aiding and abetting breach of fiduciary duty and unjust enrichment against the Board, Warren G. Lichtenstein, Glen M. Kassan, William T. Fejes, Jack L. Howard, Jeffrey J. Fenton, Philip E. Lengyel and Jeffrey S. Wald; and stockholders Steel Holdings, Steel Partners, Ltd., SPHG Holdings, Handy & Harman Ltd. and WHX CS Corp. (collectively, the "Steel Parties") in connection with the acquisition of \$35.0 million of the Series C Convertible Preferred Stock by SPHG Holdings and equity grants made to Messrs. Lichtenstein, Howard and Fejes on December 15, 2017 (collectively, the "Challenged Transactions"). The Company is named as a nominal defendant. The complaint alleges that although the Challenged Transactions were approved by a Special Committee consisting of the independent members of the Board of Directors (Messrs. Fenton, Lengyel and Wald), the Steel Parties dominated and controlled the Special Committee, who approved the Challenged Transactions in breach of their fiduciary duty. Plaintiff alleges that the Challenged Transactions unfairly diluted shareholders and therefore unjustly enriched Steel Holdings, SPHG Holdings and Messrs. Lichtenstein, Howard and Fejes. The complaint also alleges that the Board of Directors made misleading disclosures in the Company's proxy statement for the 2017 Annual Meeting of Stockholders in connection with seeking approval to amend the 2010 Incentive Award Plan to authorize the issuance of additional shares to accommodate certain shares underlying the equity grants. Remedies requested include rescission of the Series C Convertible Preferred Stock and equity grants, disgorgement of any unjustly obtained property or compensation and monetary damages. On June 8, 2018, defendants moved to dismiss the complaint for failure to plead demand futility and failure to state a claim. On June 28, 2019, the Court denied most of the motion to dismiss allowing the matter to proceed. The defendants answered the complaint on September 6, 2019, denying all liability.

On August 13, 2021, the Company, together with certain of its current and former directors of the Board, Warren Lichtenstein, Glen Kassan, William Fejes, Jr., Jack Howard, Jeffrey Fenton and Jeffrey Wald, as well as other named defendants (collectively, the "Defendants"), entered into a memorandum of understanding (the "MOU") with Donald Reith (the "Plaintiff") in connection with the settlement of the Reith v. Lichtenstein, et al., C.A. No. 2018-0277-MTZ (Del. Ch. 2018) class and derivative action. A definitive Stipulation of Settlement (the "Stipulation") incorporating the terms of the MOU was

filed with the Court on February 18, 2022. Pursuant to the MOU and Stipulation, and contingent on approval of the terms by the court, the Defendants agreed to cause their directors' and officers' liability insurance carriers to pay to the Company \$2.75 million in cash.

Additionally, under the MOU and separate letter agreements between the Company and such individuals (the "Surrender Agreements"), Messrs. Lichtenstein, Howard and Fejes agreed to surrender to the Company an aggregate 3.3 million shares that they had initially received in December 2017 in consideration for services to the Company. The surrenders and cancellations are in the following amounts: for Mr. Lichtenstein, 1,833,333 vested shares and 300,000 unvested shares; for Mr. Howard, 916,667 vested shares and 150,000 unvested shares; and for Mr. Fejes, 100,000 vested shares. On August 17, 2021, Mr. Lichtenstein and Mr. Howard surrendered the shares required under the MOU, the Stipulation and their respective Surrender Agreements, and in December 2021 Mr. Fejes did the same. All such shares were subsequently cancelled. Pursuant to the MOU and Stipulation, the Company has also agreed to pay the Plaintiff's counsel legal fees for this matter in an amount up to \$2.05 million, if approved by the court.

After the parties filed papers in support of court approval of the settlement, and an objector filed papers in opposition to approval of the settlement, and after hearings held on August 12 and August 18, 2022, the parties submitted an amendment to the Stipulation: (i) increasing the proposed total contribution of the insurers to \$3 million, (ii) reducing Plaintiff's counsel's fee request to \$1.6 million, and (iii) providing that if the then pending proposed Merger was consummated, the \$3 million, minus fees awarded to Plaintiff's counsel and costs of distribution of up to \$125,000, would be distributed to the holders of eligible shares of Common Stock (as defined in the Merger Agreement governing the Merger), other than the Defendants; provided, however, that no distribution is required to be made to any holder whose proportionate share of the distribution would be less than \$1.00. On September 23, 2022, the court ruled that it was denying approval of the settlement. At the court's instruction, the parties provided a status report on October 24, 2022, reporting that the vote on the proposed merger had been postponed to October 28, 2022, and proposing to file a revised status report on November 23, or on such date as the court may order. The possible recovery, if any, with respect to this dispute cannot be determined as of this date.

(11) DEFINED BENEFIT PENSION PLANS

The Company sponsors two defined benefit pension plans covering certain of ModusLink's employees in its Netherlands facility and one unfunded defined benefit pension plan covering certain of its employees in Japan. Pension costs are actuarially determined. During the year ended July 31, 2020, the Netherlands defined benefit plan was amended so active participants no longer accrued benefits as of January 1, 2020 which resulted in a pre-tax curtailment gain of \$2.4 million recognized in accumulated other comprehensive income.

The plan assets of the two defined benefit plans associated with the ModusLink's Netherlands facility consist of an insurance contract that guarantees the payment of the funded pension entitlements. Insurance contract assets are recorded at fair value, which is determined based on the cash surrender value of the insured benefits which is the present value of the guaranteed funded benefits. Insurance contracts are valued using unobservable inputs, primarily by discounting expected future cash flows relating to benefits paid from a notional investment portfolio in order to determine the cash surrender value of the policy. The following table presents the plan assets measured at fair value on a recurring basis as of July 31, 2022 and 2021, classified by fair value hierarchy:

(In thousands)	July 31, 2022	Asset Allocations	Fair Value Measurements at Reporting Date Using		
			Level 1	Level 2	Level 3
Insurance contract	\$ 17,560	98 %	\$ —	\$ —	\$ 17,560
Other investments	416	2 %	—	—	416
	<u>\$ 17,976</u>	<u>100 %</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17,976</u>

(In thousands)	July 31, 2021	Asset Allocations	Fair Value Measurements at Reporting Date Using		
			Level 1	Level 2	Level 3
Insurance contract	\$ 28,554	98 %	\$ —	\$ —	\$ 28,554
Other investments	669	2 %	—	—	669
	<u>\$ 29,223</u>	<u>100 %</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 29,223</u>

The following table summarizes the changes in benefit obligation, plan assets and funded status for these plans:

	July 31,	
	2022	2021
(In thousands)		
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 33,584	\$ 33,927
Service cost	11	16
Interest cost	462	501
Actuarial gain	(8,674)	(664)
Benefits and administrative expenses paid	(227)	(216)
Settlements	—	(46)
Currency translation	(4,053)	66
Benefit obligation at end of year	<u>\$ 21,103</u>	<u>\$ 33,584</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 29,223	\$ 29,050
Actual return on plan assets	(7,544)	(29)
Employer contributions, net	5	393
Settlements	—	(46)
Benefits and administrative expenses paid	(227)	(216)
Currency translation	(3,481)	71
Fair value of plan assets at end of year	<u>\$ 17,976</u>	<u>\$ 29,223</u>
Funded status		
Current liabilities	\$ (11)	\$ (13)
Noncurrent liabilities	(3,116)	(4,348)
Net amounts recognized on the consolidated balance sheets	<u>\$ (3,127)</u>	<u>\$ (4,361)</u>

Information for pension plans with an accumulated benefit obligation in excess of plan assets was as follows:

	July 31,	
	2022	2021
(In thousands)		
Projected benefit obligation	\$ 21,103	\$ 33,584
Accumulated benefit obligation	\$ 21,103	\$ 33,584
Fair value of plan assets	\$ 17,976	\$ 29,223

The following table summarizes the components of net periodic pension cost:

	Fiscal Year Ended July 31,	
	2022	2021
(In thousands)		
Service cost	\$ 11	\$ 16
Interest costs	462	501
Expected return on plan assets	(407)	(437)
Amortization of net actuarial loss	4	4
Net periodic pension costs	<u>\$ 70</u>	<u>\$ 84</u>

Assumptions

The table below summarizes the weighted average assumptions used to determine benefit obligations:

	Fiscal Year Ended July 31,	
	2022	2021
Discount rate	2.96 %	1.49 %
Rate of compensation increase	— %	— %

The table below summarizes weighted average assumptions used to determine net periodic pension cost:

	Fiscal Year Ended July 31,	
	2022	2021
Discount rate	2.58 %	1.24 %
Expected long-term rate of return on plan assets	2.51 %	1.20 %
Rate of compensation increase	— %	— %

The discount rate reflects the Company's best estimate of the interest rate at which pension benefits could be effectively settled as of the valuation date. It is based on the Mercer Yield Curve for the Eurozone as of July 31, 2022 for the appropriate duration of the plan.

To develop the expected long-term rate of return on assets assumptions, consideration is given to the current level of expected returns on risk free investments, the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for the future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Benefit Payments

The following table summarizes expected benefit payments from the plans through fiscal year 2032. Actual benefit payments may differ from expected benefit payments. The minimum employer required contributions to the plans are expected to be approximately \$0.2 million in fiscal year 2023.

	Pension Benefit Payments (In thousands)
For the fiscal year ending July 31:	
2023	\$ 265
2024	414
2025	340
2026	430
2027	413
Thereafter	2,896

The current target allocations for plan assets are primarily insurance contracts.

Valuation Technique

Benefit obligations are computed using the projected unit credit method. Benefits are attributed to service based on the plan's benefit formula. Cumulative gains and losses in excess of 10% of the greater of the pension benefit obligation or market-related value of plan assets are amortized over the expected average remaining lifetime of all inactive participants.

(12) REVENUE RECOGNITION

Disaggregation of Revenue

The following table presents the Company's revenues from customers with contracts disaggregated by major good or service line and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the reportable segments.

	Fiscal Year Ended July 31,	
	2022	2021
(In thousands)		
Service Lines		
Supply chain management services	\$ 201,344	\$ 224,280
Other	1,928	1,976
	<u>\$ 203,272</u>	<u>\$ 226,256</u>
Timing of Revenue Recognition		
Services transferred over time	\$ 203,272	\$ 226,256
	<u>\$ 203,272</u>	<u>\$ 226,256</u>

The table below presents information for the Company's contract balances:

	July 31,	
	2022	2021
(In thousands)		
Accounts receivable, trade, net	\$ 40,083	\$ 36,547
Contract assets	369	627
Deferred revenue - current	\$ 2,705	\$ 2,212
Deferred revenue - long-term	134	108
Total deferred revenue	<u>\$ 2,839</u>	<u>\$ 2,320</u>

Remaining Performance Obligations

Remaining performance obligations are comprised of deferred revenue. Changes in deferred revenue during the fiscal year ended July 31, 2022 were as follows:

	Fiscal Year Ended July 31,	
	2022	2021
(In thousands)		
Balance at beginning of period	\$ 2,320	\$ 2,464
Deferral of revenue	2,368	2,284
Recognition of deferred amounts upon satisfaction of performance obligation	(1,849)	(2,428)
Balance at end of period	<u>\$ 2,839</u>	<u>\$ 2,320</u>

The Company expects to recognize approximately \$2.7 million of the deferred revenue over the next twelve months and the remaining \$0.1 million beyond that time period.

(13) OTHER GAINS, NET

The following table presents the components of "Other gains, net":

	Fiscal Year Ended July 31,	
	2022	2021
	(In thousands)	
Foreign currency exchange gains (losses), net	\$ 2,389	\$ (1,907)
Derecognition of accrued pricing liabilities ^(a)	860	3,204
Other gains (losses), net	782	(121)
	<u>\$ 4,031</u>	<u>\$ 1,176</u>

(a) Refer to Note 6 – "Accrued Expenses and Other Current Liabilities" for information on the derecognition of the accrued pricing liabilities.

(14) SHARE-BASED PAYMENTS*Share-Based Compensation Plans*

The Company has adopted share-based compensation plans in order to provide incentives to directors, officers, employees and other individuals providing services to or on behalf of the Company and its subsidiaries. On June 12, 2020, the Company's Board of Directors adopted, subject to stockholder approval, the Steel Connect, Inc. 2020 Stock Incentive Compensation Plan ("2020 Incentive Plan"), and on July 23, 2020, the 2020 Incentive Plan was approved. The 2020 Incentive Plan provides that the Company may grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards and other cash based-awards. The 2020 Incentive Plan replaced the 2010 Incentive Award Plan, as amended (the "2010 Incentive Plan"). The Company also has a 2005 Non-Employee Director Plan (the "2005 Director Plan"). As of July 23, 2020, no additional grants may be issued under the 2010 Incentive Plan. Any awards that are outstanding under the 2010 Incentive Plan continue to be subject to the terms and conditions of such plan. Under the 2020 Incentive Plan, the Company may grant up to 4,945,000 shares of common stock of the Company in addition to (i) 3,668,143 shares of common stock previously available for issuance under the 2010 Incentive Plan and (ii) up to 1,060,523 shares of common stock subject to outstanding awards under the 2010 Incentive Plan, which if forfeited or lapse unexercised or are settled in cash and are not issued under the prior plan for any reason, may be issued under the 2020 Incentive Plan. As of July 31, 2022, 8,143,060 shares were available for future issuance under the 2020 Incentive Plan.

The Board of Directors administers all stock plans, approves the individuals to whom options will be granted, and determines the number of shares and exercise price of each option and may delegate this authority to a committee of the Board of Directors or to certain officers of the Company in accordance with Securities and Exchange Commission ("SEC") regulations and applicable Delaware law.

During the fiscal year ended July 31, 2022 and 2021, the Company awarded stock-based compensation under the 2020 Incentive Plan.

On December 15, 2017, under the 2010 Incentive Plan, the Board, upon the recommendation of the Special Committee and the Company's Compensation Committee, approved 4.0 million restricted stock grants and 1.5 million market based restricted stock grants to non-employee directors of the Company. The 4.0 million restricted stock vested immediately on the grant date. The 1.5 million market based restricted stock grants do not expire and vest upon the attainment of target stock price hurdles. As of July 31, 2020, 1.0 million of the market based restricted stock grants had met the target stock price hurdles. The restricted stock grants and market based restricted stock grants were fully expensed as of July 31, 2021. As discussed in Note 10, on August 13, 2021 and February 22, 2022, respectively the Company, together with certain of its current and former directors of the Board, entered into a memorandum of understanding and stipulation of settlement with Donald Reith in connection with the settlement of the Reith v. Lichtenstein, et al., C.A. No. 2018-0277-MTZ (Del. Ch. 2018) class and derivative action. Under the MOU, the stipulation and separate letter agreements between the Company and recipients of the 5.5 million restricted stock and market based restricted stock awards granted in December 2017, the non-employee directors surrendered to the Company an aggregate 2.9 million vested shares and 0.5 million unvested shares.

For the fiscal years ended July 31, 2022 and 2021, \$0.7 million and \$0.6 million, respectively, of share-based compensation expense was recorded in SG&A expenses in the consolidated statements of operations.

Stock Options

A summary of option activity for the fiscal year ended July 31, 2022 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
(In thousands, except exercise price and years)			
Stock options outstanding, July 31, 2021	12	\$ 3.41	0.2
Granted	—	—	
Exercised	—	—	
Forfeited or expired	(12)	3.41	
Stock options outstanding, July 31, 2022	—	—	0
Stock options exercisable, July 31, 2022	—	\$ —	0

As of July 31, 2022, there was no unrecognized share-based compensation related to stock options.

Restricted Stock

Restricted stock consists of shares of common stock that are subject to restrictions on transfer and risk of forfeiture until the fulfillment of specified conditions. Restricted stock is expensed ratably over the term of the restriction period, ranging from one to five years unless there are performance conditions placed on the restricted stock, in which case the restricted stock is expensed using graded vesting. Restricted stock compensation expense for the fiscal years ended July 31, 2022 and 2021 was \$0.7 million and \$0.6 million, respectively.

A summary of the activity of the Company's restricted stock for the fiscal year ended July 31, 2022, is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
(Share amounts in thousands)		
Nonvested stock outstanding, July 31, 2021	1,116	\$ 1.09
Granted	480	0.38
Vested	(466)	1.18
Forfeited	(650)	1.21
Nonvested stock outstanding, July 31, 2022	480	\$ 0.38

The fair value of restricted shares is determined based on the market price of the Company's common stock on the grant date. The total grant date fair value of restricted stock that vested during the fiscal years ended July 31, 2022 and 2021 was approximately \$0.6 million and \$0.7 million, respectively. As of July 31, 2022, there was approximately \$0.2 million of total unrecognized compensation cost related to restricted stock to be recognized over a weighted average period of 0.6 years.

Employee Stock Purchase Plan

The Company offers to its employees an Employee Stock Purchase Plan (the "ESPP") under which an aggregate of 600,000 shares of the Company's stock may be issued. Employees who elect to participate in the ESPP instruct the Company to withhold a specified amount through payroll deductions during each quarterly period. On the last business day of each applicable quarterly payment period, the amount withheld is used to purchase the Company's common stock at a purchase price equal to 85% of the lower of the market price on the first or last business day of the quarterly period. During the fiscal years ended July 31, 2022 and 2021, the Company issued approximately 499 and 9,145 shares, respectively, under the ESPP. Approximately 77,316 shares are available for future issuance as of July 31, 2022.

(15) INCOME TAXES

The components of (loss) income before provision for income taxes are as follows:

	Fiscal Year Ended July 31,	
	2022	2021
(In thousands)		
Income (loss) from operations before income taxes:		
U.S.	\$ (5,189)	\$ (9,590)
Foreign	7,321	6,592
Total income (loss) from operations before income taxes	<u>\$ 2,132</u>	<u>\$ (2,998)</u>

The components of income tax expense from operations consist of the following:

	Fiscal Year Ended July 31,	
	2022	2021
(In thousands)		
Current provision:		
Federal	\$ —	\$ —
State	429	574
Foreign	1,918	1,033
	<u>2,347</u>	<u>1,607</u>
Deferred provision:		
Federal	8,849	6,102
State	76	1,032
Foreign	116	96
	<u>9,041</u>	<u>7,230</u>
Total tax provision	<u>\$ 11,388</u>	<u>\$ 8,837</u>

As of July 31, 2022, the Company recorded a non-current deferred tax asset of \$0.1 million and a non-current deferred tax liability of \$0.1 million in "Other Assets" and "Other Long-term Liabilities," respectively. As of July 31, 2021, the Company recorded a non-current deferred tax asset of \$0.2 million and a non-current deferred tax liability of \$1.2 million in "Other Assets" and "Other Long-term Liabilities," respectively. The components of deferred tax assets and liabilities are as follows:

	July 31,	
	2022	2021
(In thousands)		
Deferred tax assets:		
Accruals and reserves	\$ 4,295	\$ 18,104
Tax basis in excess of financial basis for intangible and fixed assets	901	181
Lease liability	2,288	9,544
Interest expense disallowance	2,357	7,764
Credit carry forwards	25	28
Net operating loss and capital loss carry forwards	478,530	459,008
Total gross deferred tax assets	488,396	494,629
Less: valuation allowance	(485,212)	(456,610)
Net deferred tax assets	<u>\$ 3,184</u>	<u>\$ 38,019</u>
Deferred tax liabilities:		
Financial basis in excess of tax basis for intangible and fixed assets	\$ (69)	\$ (28,593)
Right of use asset	(2,154)	(9,015)
Convertible debt	(917)	(1,342)
Total gross deferred tax liabilities	<u>(3,140)</u>	<u>(38,950)</u>
Net deferred tax liabilities	<u>\$ 44</u>	<u>\$ (931)</u>

The net change in the total valuation allowance for the fiscal year ended July 31, 2022 was an increase of approximately \$28.6 million. This increase is primarily due to the U.S. valuation allowance. A valuation allowance has been recorded against the gross deferred tax asset in the U.S and certain foreign subsidiaries since management believes that after considering all the available objective evidence, both positive and negative, historical and prospective, it is more likely than not that certain assets will not be realized. The net change in the total valuation allowance for the fiscal year ended July 31, 2021 was an increase of approximately \$3.6 million.

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 or more of a corporation's securities over a rolling three year period.

On August 16, 2022, the Inflation Reduction Act ("IRA") was signed into law in the United States. Among other provisions, the IRA includes a 15% corporate minimum tax rate applied to certain large corporations and a 1% excise tax on corporate stock repurchases made after December 31, 2022. We do not expect the IRA to have a material impact on our consolidated financial statements.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act into law which is intended to respond to the COVID-19 pandemic and its impact on the economy, public health, state and local governments, individuals and businesses. The CARES Act contains numerous tax provisions including temporary changes to the future limitations on interest deductions related to section 163j.

As of July 31, 2022, the Company deferred the employer-paid portion of social security taxes, which is expected to provided the Company with approximately \$0.3 million of additional liquidity. The remaining deferral is due by December 31, 2022. The Company does not expect the provisions of the CARES Act to have a significant impact on the income tax provision, income tax payable or deferred income tax positions of the Company.

The Company has estimated its fiscal year 2022 global intangible low-taxed income ("GILTI") inclusion based on its current year foreign activity. The foreign entities have minor earnings and profit adjustments that will be factored in as part of the tax return filing. These amounts are not material and will not have a significant impact on the overall tax provision or disclosure. Due to the net operating losses available in the U.S., the Company is not entitled to a Section 250 deduction, which is why the total income amount has been recorded as the GILTI inclusion. The Company has made an accounting policy election, as allowed by the SEC and FASB, to recognize the impact of GILTI within the period incurred. Therefore, no U.S. deferred taxes are provided in GILTI inclusions of future foreign subsidiary earnings.

The Company has net operating loss carryforwards for federal and state tax purposes of approximately \$2.2 billion and \$153.7 million, respectively, at July 31, 2022. \$2.02 billion of the company's federal net operating losses will expire from the fiscal year ending July 31, 2023 through the fiscal year ended July 31, 2038 and the remainder federal net operating losses of \$137.8 million has an indefinite carryforward period. The state net operating losses will expire from the fiscal year ended July 31, 2023 through the fiscal year ended July 31, 2041. The Company has a foreign net operating loss carryforward of approximately \$62.6 million, of which \$59.7 million has an indefinite carryforward period. In addition, the Company has \$34.2 million of capital loss carryforwards for federal and state tax purposes. The federal and state capital losses will expire in fiscal year 2024.

Income tax expense attributable to income from continuing operations differs from the expense computed by applying the U.S. federal income tax rate of 21.0% to (loss) income from continuing operations before income taxes as a result of the following:

	Fiscal Year Ended July 31,	
	2022	2021
(In thousands)		
Computed "expected" income tax expense (benefit)	\$ 448	\$ (630)
Increase (decrease) in income tax expense resulting from:		
Change in valuation allowance	25,737	4,085
Foreign tax rate differential	56	(33)
Goodwill impairment	—	5,388
Nondeductible expenses	159	126
Foreign withholding taxes	134	(1,310)
Foreign other adjustments	951	347
GILTI	4,775	—
Addition of uncertain tax position reserves	58	(74)
Worthless stock deduction	(20,455)	—
State income taxes, net of federal benefit	(1,042)	317
Deferred true-up	751	—
Other	(184)	621
Actual income tax expense	<u>\$ 11,388</u>	<u>\$ 8,837</u>

The calculation of the Company's income tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several tax jurisdictions. The Company is periodically reviewed by domestic and foreign tax authorities regarding the amount of taxes due. These reviews include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with various filing positions, the Company records estimated reserves when necessary. Based on the evaluation of current tax positions, the Company believes it has appropriately accrued for exposures.

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. At July 31, 2022 and 2021, the total amount of the liability for unrecognized tax benefits, including interest, related to federal, state and foreign taxes was approximately \$0.8 million and \$2.5 million, respectively. To the extent the unrecognized tax benefits are recognized, the entire amount would impact income tax expense. The Company expects that there will be a \$0.2 million reduction of the unrecognized tax benefits in the next twelve months related to the U.S. state income tax exposure as a result of a lapse in the applicable statute of limitations.

The Company files income tax returns in the U.S., various states and in foreign jurisdictions. The federal and state income tax returns are generally subject to tax examinations for the tax years ended July 31, 2019 through July 31, 2022. 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 2014 through 2021 tax years remain subject to examination in most locations while the Company's 2010 through 2021 tax years remain subject to examination in most Asia locations.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

	Fiscal Year Ended July 31,	
	2022	2021
(In thousands)		
Balance as of beginning of year	\$ 2,140	\$ 2,460
Additions for current year tax positions	—	52
Currency translation	(4)	(3)
Reductions for lapses in statute of limitations	(67)	(369)
Reductions for member leaving consolidated group	(1,498)	—
Balance as of end of year	<u>\$ 571</u>	<u>\$ 2,140</u>

In accordance with the Company's accounting policy, interest related to income taxes is included in the provision for income taxes line of the consolidated statements of operations. For the fiscal years ended July 31, 2022 and 2021, the Company has not recognized any material interest expense related to uncertain tax positions. As of July 31, 2022 and 2021, the Company had recorded liabilities for increases in interest expense related to uncertain tax positions for an immaterial amount and \$0.1 million, respectively. The Company expects \$0.2 million of unrecognized tax benefits and related interest will reverse in the next twelve months.

(16) LOSS PER SHARE

Loss Per Share

The following table reconciles net loss per share for the fiscal years ended July 31, 2022 and 2021.

	Fiscal Year Ended July 31,	
	2022	2021
(In thousands, except per share data)		
Reconciliation of net loss to net loss attributable to common stockholders after assumed conversions:		
Net loss	\$ (10,968)	\$ (44,391)
Less: Preferred dividends on redeemable preferred stock	(2,129)	(2,129)
Net loss attributable to common stockholders	<u>\$ (13,097)</u>	<u>\$ (46,520)</u>
Net loss attributable to common stockholders:		
Continuing operations, net of tax	\$ (11,385)	\$ (13,964)
Discontinued operations, net of tax	(1,712)	(32,556)
Net loss attributable to common stockholders	<u>\$ (13,097)</u>	<u>\$ (46,520)</u>
Weighted average common shares outstanding	<u>59,964</u>	<u>62,142</u>
Basic and diluted net loss per share attributable to common stockholders		
Continuing operations	\$ (0.19)	\$ (0.23)
Discontinued operations, net of tax	(0.03)	(0.52)
Net loss attributable to common stockholders	<u>\$ (0.22)</u>	<u>\$ (0.75)</u>

Approximately 24.2 million common stock equivalent shares relating to the effects of outstanding stock options, restricted stock, the SPHG Note and redeemable preferred stock were excluded from the denominator in the calculation of diluted loss per share for both the fiscal years ended July 31, 2022 and 2021. The common stock equivalent shares excluded during the fiscal years ended July 31, 2022 and 2021 were primarily excluded as their effect would be anti-dilutive. Approximately 6.3 million common shares outstanding associated with the SPHG Note, using the if-converted method, were excluded from the denominator in the calculation of diluted loss per share for both the fiscal years ended July 31, 2022 and 2021. Approximately 17.9 million common shares outstanding associated with the contingently redeemable preferred stock, using the if-converted method, were excluded from the denominator in the calculation of diluted loss per share for both the fiscal years ended July 31, 2022 and 2021.

(17) ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income, net of income taxes, are as follows:

	Foreign currency items	Pension items	Total
(In thousands)			
Accumulated other comprehensive income (loss) at July 31, 2021	\$ 9,762	\$ (2,600)	\$ 7,162
Foreign currency translation adjustment	(3,699)	—	(3,699)
Pension liability adjustments	—	677	677
Net current-period other comprehensive income (loss)	(3,699)	677	(3,022)
Accumulated other comprehensive income (loss) at July 31, 2022	\$ 6,063	\$ (1,923)	\$ 4,140

	Foreign currency items	Pension items	Total
(In thousands)			
Accumulated other comprehensive income (loss) at July 31, 2020	\$ 5,025	\$ (1,182)	\$ 3,843
Foreign currency translation adjustment	4,737	—	4,737
Pension liability adjustments	—	(1,418)	(1,418)
Net current-period other comprehensive income (loss)	4,737	(1,418)	3,319
Accumulated other comprehensive income (loss) at July 31, 2021	\$ 9,762	\$ (2,600)	\$ 7,162

In both the fiscal years ended July 31, 2022 and 2021, the Company recorded an immaterial amount in taxes related to other comprehensive income (loss).

(18) STATEMENT OF CASH FLOWS SUPPLEMENTAL INFORMATION

The amount of cash, cash equivalents and restricted cash as of July 31, 2022 and 2021 in the consolidated statements of cash flows is reconciled to the Company's consolidated balance sheets as follows:

	July 31,	
	2022	2021
(In thousands)		
Cash and cash equivalents	\$ 53,142	\$ 58,117
Funds held for clients	4,903	8,212
Cash, cash equivalents and restricted cash	\$ 58,045	\$ 66,329

Cash used for operating activities reflect cash payments for interest and income taxes as follows:

	Fiscal Year Ended July 31,	
	2022	2021
(In thousands)		
Cash paid for interest	\$ 1,237	\$ 1,262
Cash paid for income taxes	\$ 2,364	\$ 3,241

Cash paid for taxes can be lower than income tax expense as shown on the Company's consolidated statements of operations due to the timing of required payments in relation to recorded expense, which can cross fiscal years.

Non-Cash Activities

Non-cash financing activities during the fiscal years ended July 31, 2022 and 2021 included the issuance of approximately 0.5 million and 0.4 million shares, respectively, of non-vested common stock, valued at approximately \$0.7 million and \$0.6 million, respectively, to certain employees and non-employees of the Company.

(19) STOCKHOLDERS' EQUITY

Preferred Stock

The Company's Board of Directors 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 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 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 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.

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 dividends at 6% per annum payable, at the Company's option, 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.

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) 100% of the stated value per share of Preferred Stock (initially \$1,000 per share) then held by them (as adjusted for any stock dividend, stock split, stock combination, reclassification 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). If holders of the Preferred Stock exercise this right to require the Company to redeem all the Preferred Stock, the Company may have insufficient liquidity to pay the redemption price of \$35.2 million, or the Company's payment of the redemption price may adversely impact the Company's liquidity and ability to finance its operations.

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 is 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 SEC in the manner reasonably requested by the holder and the qualification of the securities in all states reasonably requested by the holder, in each case, 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 of Directors by the Special Committee of the Board of Directors consisting of independent directors not affiliated with Steel Holdings GP, which controls the power to vote and dispose of the securities held by SPHG Holdings and its affiliates.

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.

On March 12, 2013, stockholders of the Company approved the sale of 7,500,000 shares of newly issued common stock to 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 with Steel Holdings pursuant to which the Company repurchased the Warrant for \$100. The Warrant was terminated by the Company upon repurchase.

(20) FAIR VALUE MEASUREMENTS

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 July 31, 2022 and 2021, classified by fair value hierarchy:

(In thousands)	July 31, 2022	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Money market funds	\$ 31,756	\$ 31,756	\$ —	\$ —

(In thousands)	July 31, 2021	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Money market funds	\$ 37,202	\$ 37,202	\$ —	\$ —

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

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

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

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

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, customer deposits, accounts payable, restricted cash and debt, and are reflected in the consolidated financial statements at carrying value. With the exception of the SPHG Note, carrying value approximates fair value for these items due to their short-term maturities or expected settlement dates of these instruments. The Company believes that the carrying value of the liability component of the SPHG Note approximates fair value because the stated interest rates of this debt is consistent with current market rates. Included in cash and cash equivalents in the accompanying condensed consolidated balance sheets are money market funds. These are valued at quoted market prices in active markets.

(21) SEGMENT INFORMATION

Subsequent to the Company's disposition of the Direct Marketing reportable segment in the IWCO Direct Disposal, the Company has one reportable segment: Supply Chain. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance and share-based compensation, which are not allocated to the Company's reportable segment. The Corporate-level balance sheet information includes cash and cash equivalents, debt and other assets and liabilities which are not identifiable to the operations of the Company's operating segment. All significant intra-segment amounts have been eliminated. Management evaluates segment performance based on segment net revenue and operating income (loss).

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 long-lived asset impairment, share-based compensation 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 (loss) to assist in evaluating the performance of the Company's core operations.

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

	Fiscal Year Ended July 31,	
	2022	2021
	(In thousands)	
Net revenue:		
Supply Chain	\$ 203,272	\$ 226,256
Total segment net revenue	<u>\$ 203,272</u>	<u>\$ 226,256</u>
Operating income:		
Supply Chain	11,318	6,827
Total segment operating income	11,318	6,827
Corporate-level activity	(10,155)	(8,397)
Total operating income (loss)	1,163	(1,570)
Total other income (expense)	969	(1,428)
Income (loss) before income taxes	<u>\$ 2,132</u>	<u>\$ (2,998)</u>

	July 31,	
	2022	2021
	(In thousands)	
Total assets:		
Supply Chain	\$ 101,637	\$ 101,160
Corporate	36,112	44,278
Total assets	<u>\$ 137,749</u>	<u>\$ 145,438</u>

Summarized financial information of the Company's capital expenditures and depreciation expense for the Supply Chain reportable segment is as follows:

	Fiscal Year Ended July 31,	
	2022	2021
	(In thousands)	
Capital expenditures	\$ 1,485	\$ 1,218
Depreciation expense	2,220	3,403

Summarized financial information of the Company's net revenue by geographic location is as follows:

	Fiscal Year Ended July 31,	
	2022	2021
	(In thousands)	
United States	\$ 50,426	\$ 60,743
Mainland China	72,210	71,307
Netherlands	24,483	25,384
Other	56,153	68,822
Total consolidated net revenue	<u>\$ 203,272</u>	<u>\$ 226,256</u>

(22) RELATED PARTY TRANSACTIONS

As of July 31, 2022, SPHG Holdings and its affiliates, including Steel Holdings, HNH and SPL, beneficially owned approximately 50.0% of our outstanding capital stock, including the if-converted value of the SPHG Note and shares of Series C Convertible Preferred Stock that vote on an as-converted basis together with our Common Stock. Warren G. Lichtenstein, our Interim Chief Executive Officer and the Executive Chairman of our Board, is also the Executive Chairman of Steel Holdings GP. Glen Kassar, our Vice Chairman of the Board of Directors and former Chief Administrative Officer, is an employee of Steel Services. Jack L. Howard, the President and a director of Steel Holdings GP, is also a director.

SPHG Note Transaction

On February 28, 2019, the Company entered into that certain SPHG Note Purchase Agreement with SPHG Holdings, whereby SPHG Holdings agreed to loan the Company \$14.9 million in exchange for a 7.50% Convertible Senior Note due 2024. As of July 31, 2022 and 2021, SPHG Holdings held \$14.9 million principal amount of the Company's 7.50% Convertible Senior Note. As of July 31, 2022 and 2021, the net carrying value of the SPHG Note was \$11.0 million and \$9.3 million, respectively. During the fiscal years ended July 31, 2022 and 2021, the Company recognized interest expense of \$2.8 million and \$2.4 million, respectively, associated with the SPHG Note.

Preferred Stock Transaction

Refer to Note 19 – “Stockholders’ Equity” for information on the Preferred Stock Purchase Agreement with SPHG Holdings. During each of the fiscal years ended July 31, 2022 and 2021, the Company paid dividends of \$2.1 million associated with the Series C Convertible Preferred Stock.

Management Services Agreement

On June 14, 2019, the Company entered into an agreement (the "Management Services Agreement") with Steel Services Ltd. ("Steel Services"), an indirect wholly-owned subsidiary of Steel Holdings. The Management Services Agreement was effective as of June 1, 2019. Pursuant to this agreement, SP Corporate provided the Company and its subsidiaries with the services of certain employees, including certain executive officers and other corporate services. In connection with the IWCO Direct Disposal, the monthly fee under the Management Services Agreement was reduced effective on the Disposal Date primarily for the portion of the fee attributable to IWCO Direct. Total expenses incurred related to the management services agreement for the fiscal years ended July 31, 2022 and 2021 totaled \$3.1 million and \$4.3 million, respectively. As of July 31, 2022 and 2021, amounts due to Steel Services were \$1.0 million and \$0.9 million, respectively.

Proposed Merger with Steel Holdings

On June 12, 2022, the Company, Steel Holdings and Merger Sub, entered into the Merger Agreement, pursuant to which Merger Sub will merge with and into the Company, with the Company surviving the Merger as a wholly-owned subsidiary of Steel Holdings. See Note 1 for further discussion regarding the Merger.

ITEM 9.— CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A.— 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 Interim Chief Executive Officer and Chief 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. Based upon that evaluation, management, including the Interim Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls were effective as of July 31, 2022.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (as such terms are defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). A company's internal control over

financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of its financial reporting and the preparation of its financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of and with the participation of management, including the Interim Chief Executive Officer and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of July 31, 2022.

Changes in Internal Control over Financial Reporting

Despite the fact that many of our employees are working remotely due to the COVID-19 pandemic, these remote work arrangements have not resulted in 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); however, we are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

There have been no changes in our internal control over financial reporting during the quarter ended July 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B.— OTHER INFORMATION

None.

ITEM 9C.— DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10.— DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Unless earlier included in an amendment to this Form 10-K, the information with respect to directors and executive officers required by this item will be contained in our definitive proxy statement to be filed with the SEC not later than 120 days after the close of business of the fiscal year and is incorporated in this Report by reference.

During the fiscal year ended July 31, 2022, we made no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors, as described in our definitive proxy statement on Schedule 14A filed with the SEC on August 23, 2022.

The Company has adopted a Code of Business Conduct and Ethics that applies to all directors, officers and employees of the Company, including the Company's principal executive officer, and its senior financial officers (principal financial officer and controller or principal accounting officer, or persons performing similar functions). The Company's Code of Business Conduct and Ethics is posted on its website, www.steelconnectinc.com (under the Corporate Governance section). We intend to satisfy the disclosure requirement regarding any amendment to, or waiver of, a provision of the Code of Business Conduct and Ethics applicable to the Company's principal executive officer or its senior financial officers (principal financial officer and controller or principal accounting officer, or persons performing similar functions) by posting such information on our website as required by the rules of the SEC or Nasdaq.

ITEM 11.— EXECUTIVE COMPENSATION

Unless earlier included in an amendment to this Form 10-K, the information required by this item will be contained in our definitive proxy statement and is incorporated in this Report by reference.

ITEM 12.— SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Unless earlier included in an amendment to this Form 10-K, information regarding the security ownership of certain beneficial owners and management will be contained in our definitive proxy statement and is incorporated in this Report by reference.

Equity Compensation Plan Information as of July 31, 2022

The following table sets forth certain information regarding the Company's equity compensation plans as of July 31, 2022:

Plan Category	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	—	\$ —	8,220,376 ⁽¹⁾⁽²⁾
Equity compensation plans not approved by security holders	—	\$ —	—
Total	—	\$ —	8,220,376

(1) Includes:

- Approximately 77,316 shares available for issuance under the Company's Amended and Restated 1995 Employee Stock Purchase Plan, as amended.
- 8,143,060 shares available for future issuance under the 2020 Stock Incentive Compensation Plan.

(2) On June 12, 2020, the Company's Board of Directors adopted, subject to stockholder approval, the Steel Connect Inc. 2020 Stock Incentive Compensation Plan ("2020 Incentive Plan"), and on July 23, 2020, the 2020 Incentive Plan was approved. The 2020 Incentive Plan replaces the 2010 Incentive Award Plan, as amended (the "2010 Incentive Plan"). The Company also has a 2005 Non-Employee Director Plan (the "2005 Director Plan"). As of December 2010, no grants were allowed under the 2005 Director Plan. As of July 23, 2020, no additional grants may be issued under the 2010 Incentive Plan. Any awards that are outstanding under the 2010 Incentive Plan continue to be subject to the terms and conditions of such plan.

ITEM 13.— CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Unless earlier included in an amendment to this Form 10-K, the information required by this item will be contained in our definitive proxy statement and is incorporated in this Report by reference.

ITEM 14.— PRINCIPAL ACCOUNTING FEES AND SERVICES

Unless earlier included in an amendment to this Form 10-K, the information required by this item will be contained in our definitive proxy statement and is incorporated in this Report by reference.

PART IV**ITEM 15.— EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) 1. Financial Statements.

The financial statements listed in the Index to Consolidated Financial Statements are filed as part of this Report.

(a) 2. Financial Statement Schedules.

All financial statement schedules have been omitted as they are either not required, not applicable, or the information is otherwise included.

(a) 3. Exhibits.

The exhibits listed in the Exhibit Index are filed, furnished or incorporated by reference in this report.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1†	<u>Agreement and Plan of Merger, dated as of June 12, 2022, by and among Steel Connect, Inc., Steel Partners Holdings L.P. and SP Merger Sub, Inc. is incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated June 13, 2022.</u>
2.2†	<u>Transaction Agreement, dated as of February 25, 2022, by and among IWCO Direct Holdings Inc., Cerberus Business Finance, LLC, the entities listed on the signature pages thereto under the caption "Lenders," Steel Connect, Inc., SPH Group Holdings LLC, Instant Web Holdings, LLC, and the other parties thereto is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated February 25, 2022.</u>
3.1	<u>Restated Certificate of Incorporation of the Registrant is incorporated herein by reference to Exhibit 3.4 to the Registrant's Current Report on Form 8-K dated September 29, 2008.</u>
3.2	<u>Certificate of Designations of Series A Junior Participating Preferred Stock of ModusLink Global Solutions, Inc., filed with the Secretary of State of the State of Delaware on October 18, 2011 is incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on October 18, 2011.</u>
3.3	<u>Fourth Amended and Restated Bylaws of ModusLink Global Solutions, Inc., as currently in effect is incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on June 23, 2014.</u>
3.4	<u>Certificate of Elimination of Series B Junior Participating Preferred Stock of ModusLink Global Solutions, Inc., dated March 26, 2013 is incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on March 26, 2013.</u>
3.5	<u>Amendment to the Restated Certificate of Incorporation, filed with the Secretary of State of the State of Delaware on December 29, 2014 is incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on January 5, 2015.</u>
3.6	<u>Certificate of Amendment of the Restated Certificate of Incorporation of ModusLink Global Solutions, Inc. (Effecting the Reverse Split), filed with the Secretary of State of the State of Delaware on January 16, 2015 is incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on January 22, 2015.</u>
3.7	<u>Certificate of Amendment of the Restated Certificate of Incorporation of ModusLink Global Solutions, Inc. (Effecting the Forward Split), filed with the Secretary of State of the State of Delaware on January 16, 2015 is incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on January 22, 2015.</u>
3.8	<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.</u>
3.9	<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.</u>
3.10	<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.</u>
3.11	<u>Amendment to Restated Certificate of Incorporation, filed with the Secretary of State of the State of Delaware on April 12, 2018 is incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on April 16, 2018.</u>
4.1	<u>Specimen stock certificate representing the Registrant's Common Stock is incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on January 22, 2015.</u>

- 4.2 [Description of Registrant's Securities is incorporated by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 10-K filed on October 15, 2019.](#)
- 4.3 [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.](#)
- 4.4 [Amendment to Tax Benefits Preservation Plan, dated as of January 8, 2021, by and between Company and American Stock Transfer & Trust Company, LLC, as Rights Agent is incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on January 8, 2021.](#)
- 4.5 [Form of 7.50% Convertible Senior Note due 2024 issued by Steel Connect, Inc. to SPH Group Holdings LLC. is incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on February 28, 2019.](#)
- 10.1* [Amended and Restated 1995 Employee Stock Purchase Plan, as amended by Amendment No. 1 and Amendment No. 2 thereto is incorporated herein by reference to Appendix II to the Registrant's Definitive Schedule 14A filed on November 16, 2001.](#)
- 10.2* [Amendment No. 3 to Amended and Restated 1995 Employee Stock Purchase Plan is incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2006.](#)
- 10.3* [Amendment No. 4 to Amended and Restated 1995 Employee Stock Purchase Plan is incorporated herein by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2008.](#)
- 10.4* [Amendment No. 5 to Amended and Restated 1995 Employee Stock Purchase Plan is incorporated herein by reference to Appendix I to the Registrant's Definitive Schedule 14A filed on October 23, 2009.](#)
- 10.5 [Investment Agreement, dated February 11, 2013, between ModusLink Global Solutions, Inc. and Steel Partners Holdings, L.P. is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 13, 2013.](#)
- 10.6 [Settlement Agreement, dated February 11, 2013, among ModusLink Global Solutions, Inc., Handy & Harman, Ltd. and certain of its affiliates party thereto is incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 13, 2013.](#)
- 10.7 [Amendment No. 1 to Settlement Agreement, dated January 5, 2015, between ModusLink Global Solutions, Inc. and Handy & Harman Ltd. is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 5, 2015.](#)
- 10.8 [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.](#)
- 10.9++ [Management Services Agreement, dated as of June 1, 2019, between Steel Services Ltd. and Steel Connect, Inc. is incorporated herein by reference to Exhibit 10.51 to the Registrant's Annual Report on Form 10-K filed on October 15, 2019.](#)
- 10.10** [Amendment No. 1 to Management Services Agreement, dated as of October 27, 2022, between Steel Services Ltd. and Steel Connect, Inc.](#)
- 10.11* [Steel Connect, Inc. 2020 Stock Incentive Compensation Plan is incorporated herein by reference to Appendix II of the Registrant's Definitive Proxy Statement on Schedule 14A, filed on June 29, 2020.](#)
- 10.12* [Form of Restricted Stock Award Agreement under the Steel Connect, Inc. 2020 Stock Incentive Compensation Plan is incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K filed on October 29, 2021.](#)
- 10.13 [Voting and Support Agreement, dated as of June 12, 2022, by and among Steel Connect, Inc., Steel Partners Holdings L.P., Handy & Harman Ltd., WHX CS Corp., Steel Partners, Ltd., SPH Group LLC, SPH Group Holdings LLC, Steel Partners Holdings GP Inc., Steel Excel Inc., Warren G. Lichtenstein and Jack L. Howard is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated June 13, 2022.](#)
- 10.14 [Form of Contingent Value Rights Agreement is incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated June 13, 2022.](#)
- 10.15* [Form of Indemnification Agreement by and between the Company and its directors and officers is incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2021.](#)

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10.16†	Credit Agreement, dated as of March 16, 2022, between ModusLink Corporation, as borrower, and Umpqua Bank, as Lender is incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2022.
21**	Subsidiaries of the Registrant.
23.1**	Consent of BDO USA, LLP.
24.1**	Power of Attorney (included on the signature page of this Annual Report on Form 10-K).
31.1**	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1‡	Certification of the Principal Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2‡	Certification of the Principal Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	Interactive Data Files Pursuant to Rule 405 of Regulation S-T formatted in Inline XBRL: (i) Audited Consolidated Balance Sheet as of July 31, 2022, (ii) Audited Consolidated Statement of Operations for the fiscal year ended July 31, 2022, (iii) Audited Consolidated Statement of Cash Flows for the fiscal year ended July 31, 2022 and (iv) Notes to Audited Consolidated Financial Statements.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

* Management contract or compensatory plan or arrangement.

** Filed herewith.

‡ Furnished herewith.

++ Portions of this exhibit (indicated by asterisks) have been omitted pursuant to Regulation S-K, Item 601(b)(10). Such omitted information is not material and would likely cause competitive harm to the registrant if publicly disclosed.

† The schedules to this exhibit have been omitted pursuant to Item 601(a)(5) of Regulation S-K.

ITEM 16.— FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: November 8, 2022

By: _____ /S/ WARREN G. LICHTENSTEIN
Warren G. Lichtenstein
Interim Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints jointly and severally, Warren G. Lichtenstein and Jason Wong, or either of them as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney as of the date indicated.

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ /S/ WARREN G. LICHTENSTEIN Warren G. Lichtenstein	Interim Chief Executive Officer, Executive Chairman of the Board and Director (Principal Executive Officer)	November 8, 2022
_____ /S/ JASON WONG Jason Wong	Chief Financial Officer (Principal Financial Officer)	November 8, 2022
_____ /S/ GARY W. TANKARD Gary W. Tankard	Chief Accounting Officer (Principal Accounting Officer)	November 8, 2022
_____ /S/ JEFFREY J. FENTON Jeffrey J. Fenton	Director	November 8, 2022
_____ /S/ GLEN M. KASSAN Glen M. Kassan	Vice Chairman and Director	November 8, 2022
_____ /S/ MARIA U. MOLLAND Maria U. Molland	Director	November 8, 2022
_____ /S/ JEFFREY S. WALD Jeffrey S. Wald	Director	November 8, 2022
_____ /S/ JACK L. HOWARD Jack L. Howard	Director	November 8, 2022
_____ /S/ RENATA SIMRIL Renata Simril	Director	November 8, 2022

AMENDMENT NO. 1 TO MANAGEMENT SERVICES AGREEMENT

This AMENDMENT NO. 1 TO MANAGEMENT SERVICES AGREEMENT (this “**Amendment**”), dated as of October 27, 2022 and effective as of February 25, 2022 (the “**Effective Date**”), and is between Steel Services Ltd. (“**Steel Services**”), a Delaware corporation, having an office at 590 Madison Avenue, 32nd Floor, New York, New York 10022 and Steel Connect, Inc., a Delaware corporation (the “**Company**”), having an office at 2000 Midway Lane, Smyrna, Tennessee 37167.

WHEREAS, the Company and Steel Services have previously entered into that certain Management Services Agreement, dated as of June 1, 2019 (the “**Management Services Agreement**”), pursuant to which Steel Services agreed to furnish certain services to the Company, as set forth on Exhibit A attached thereto, as it may be amended from time to time pursuant to the terms thereof (the “**Services**”), and Steel Services agreed to furnish the Services, pursuant to the terms and conditions set forth therein;

WHEREAS, on February 25, 2022, the Company disposed of its ownership in its wholly-owned subsidiary, IWCO Direct Holdings, Inc. (the “**IWCO Direct Disposal**”), and in connection with the IWCO Direct Disposal and certain other operational changes, the monthly fee for the Services provided by Steel Services (the “**Fee Amount**”) is proposed to be reduced;

WHEREAS, the Company and the Steel Services desire to amend the Management Services Agreement to reflect the reduction in the Fee Amount attributable to the IWCO Direct Disposal and certain other operational changes; and

WHEREAS, capitalized terms used herein but not otherwise defined shall have the meanings ascribed to them in the Management Services Agreement.

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Amendment to the Management Services Agreement. As of the Effective Date:

(a) The Fee Amount set forth in Exhibit A of the Management Services Agreement is hereby amended to reflect the Fee Amount set forth in Exhibit I attached hereto.

2. Date of Effectiveness. This Amendment is effective as of February 25, 2022.

3. Continuing Effect. Except as expressly modified and amended herein, all of the terms and conditions of the Management Services Agreement shall remain in full force and effect and are hereby ratified and confirmed by the parties. Without limiting the generality of the foregoing, the amendments contained herein will not be construed as an amendment to or waiver of any other provision of the Management Services Agreement or as a waiver of or consent to any further or future action on the part of any party that would require the waiver or consent of another party. On and after the Effective Date, each reference in the Management Services Agreement to “this Agreement,” “the Agreement,” “hereunder,” “hereof,” “herein” or words of like import, and each reference to the Management Services Agreement in any other agreements, documents or instruments executed and delivered pursuant to, or in connection with, the Management Services Agreement, will mean and be a reference to the Management Services Agreement as amended by this Amendment.

4. Representations and Warranties. Steel Services hereby represents and warrants to the Company that all representations and warranties made in Section 4 of the Management Services Agreement remain true and correct as of the date hereof, and, to the extent they originally applied to the Management Services Agreement, apply to both this Amendment and the Management Services Agreement as amended by the Amendment.

5. Counterparts; Choice of Law. This Amendment may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. This Amendment shall be construed under the laws of the State of New York and the parties hereby submit to the personal jurisdiction of any federal or state court located therein, and agree that jurisdiction shall rest exclusively therein, without giving effect to the principles of conflict of laws.

6. Further Assurances. Each of the parties hereto shall execute and deliver, at the reasonable request of the other party hereto, such additional documents, instruments, conveyances and assurances and take such further actions as such other party may reasonably request to carry out the provisions hereof and give effect to the transactions contemplated by this Amendment.

[signature page follows]

The parties have duly executed this Agreement as of the date first above written.

STEEL SERVICES LTD.

By: /s/ Jason Wong
Name: Jason Wong
Title: CFO, Treasurer

STEEL CONNECT, INC.

By: /s/ Jason Wong
Name: Jason Wong
Title: CFO

EXHIBIT I

The “Services” shall include providing the non-exclusive services of a person or people to serve in the following position or functions, and perform duties normally associated with that specific or substantially equivalent position or function for the Company:

LEGAL AND ENVIRONMENTAL HEALTH & SAFETY	<ul style="list-style-type: none"> • Board meetings • SEC and Nasdaq reporting • Financial transactions • Mergers and acquisitions • Contract review • Litigation management • Labor and employment • All other legal (intellectual property, etc.) • Compliance and risk management • Environmental, health and safety compliance
FINANCE AND TREASURY	<ul style="list-style-type: none"> • CFO services to direct external reporting • Financing evaluation and transactional support • Bank account rationalization and fee negotiations • Treasury workstation and credit card/procurement card evaluation • Insurance renewals
HUMAN RESOURCES	<ul style="list-style-type: none"> • Retention, recruitment, compensation benchmarking and standardization • Wellness programs
LEAN	<ul style="list-style-type: none"> • Lean leadership training • Kaizen event facilitation • Strategy deployment • Solution selling • Joint purchasing participation
INTERNAL AUDIT	<ul style="list-style-type: none"> • Support SOA implementation • Ongoing SOA testing and control deficiency remediation • Third party resource coordination • Audit software implementation and deployment
MERGERS AND ACQUISITIONS	<ul style="list-style-type: none"> • Target sourcing and identification • Strategy and execution for sell-side process • Valuation analysis and deal structuring • End-to-end due diligence support and deal execution
INFORMATION TECHNOLOGY	<ul style="list-style-type: none"> • Security and audit • Systems administration • Licensing, procurement and hardware standards

The monthly fee for providing the Services shall be \$101,920, paid in advance on the first day of the month.

DESIGNATED KEY PERSONS
 Chief Financial Officer
 General Counsel
 Head of Lean Leadership
 Head of Internal Audit Function

SUBSIDIARIES OF STEEL CONNECT, INC.

Name	Jurisdiction of Organization
CMG Securities Corporation	Massachusetts
CMG@Ventures, Inc.	Delaware
CMG@Ventures Capital Corp.	Delaware
CMG@Ventures Securities Corp.	Delaware
CMGI@Ventures IV, LLC	Delaware
@Ventures V, LLC	Delaware
ModusLink PTS, Inc.	Delaware
ModusLink Recovery LLC	Delaware
ModusLink Securities Corporation	Delaware
ModusLink Corporation	Delaware
SalesLink LLC	Delaware
ModusLink Mexico S.A. de C.V.	Mexico
Sol Holdings, Inc.	Delaware
Sol Services Corporation, S.A. de C.V.	Mexico
SalesLink Mexico Holding Corp.	Delaware
ModusLink B.V.	Netherlands
ModusLink Czech Republic s.r.o.	Czech Republic
Modus Media International Documentation Services (Ireland) Limited	Delaware
Modus Media International Leinster Unlimited	British Virgin Islands
Modus Media International (Ireland) Limited	Delaware
Modus Media International Ireland (Holdings) Limited	Ireland
ModusLink Kildare Limited	Ireland
ModusLink Services Europe Unlimited Company	Ireland
Logistix Holdings Europe Limited	Ireland
SalesLink Solutions International Ireland Limited	Ireland
ModusLink Company Limited	New Zealand
ModusLink Australia Pty Limited	Australia
ModusLink Japan KK	Japan
ModusLink Pte. Ltd.	Singapore
ModusLink Computer Software (Shenzhen) Co. Ltd.	China
ModusLink (Shanghai) Co. Ltd.	China
ModusLink Electronic Technology (Shenzhen) Co. Ltd.	China
ModusLink (Kunshan) Co. Ltd.	China
ModusLink (China) Co. Ltd.	China
Moduslink (Waigaoqiao) Co. Ltd.	China
ModusLink (Hong Kong) Pte. Ltd.	Hong Kong
ModusLink Software Technology (Chongqing) Co., Ltd.	China
ModusLink (M) Sdn. Bhd	Malaysia
Open Channel Solutions Pty Limited	Australia

Consent of Independent Registered Public Accounting Firm

Steel Connect, Inc.
Smyrna, Massachusetts

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-171285) of Steel Connect, Inc. of our report dated November 8, 2022, relating to the consolidated financial statements, which appear in the Annual Report to Shareholders on Form 10-K.

/s/ BDO USA, LLP

New York, NY
November 8, 2022

**CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a) OR 15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Warren G. Lichtenstein, certify that:

1. I have reviewed this annual report on Form 10-K of Steel Connect, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 8, 2022

By: _____ /S/ WARREN G. LICHTENSTEIN
Warren G. Lichtenstein
Interim Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Steel Connect, Inc. (the “Company”) for the fiscal year ended July 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Warren G. Lichtenstein, the Interim Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2022

By: /S/ WARREN G. LICHTENSTEIN
 Warren G. Lichtenstein
 Interim Chief Executive Officer
 (Principal Executive Officer)

