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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2023

OR

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

For the transition period from __________ to __________

Commission File Number 001-35319

Steel Connect, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**04-2921333** **(I.R.S. Employer Identification No.)**
590 Madison Avenue **New York, New York** **(Address of principal executive offices)**	**10022** **(Zip Code)**

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

(Former name, former address and former fiscal year, if changed since last report)

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

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 1, 2023, there were 60,942,460 shares issued and outstanding of the registrant's Common Stock, $0.01 par value per share.

STEEL CONNECT, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

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

	April 30, 2023 (unaudited)	July 31, 2022
ASSETS		
Cash and cash equivalents	$ 62,738	$ 53,142
Accounts receivable, trade, net of allowance for doubtful accounts of $1,177 and $44 at April 30, 2023 and July 31, 2022, respectively	36,948	40,083
Inventories, net	6,919	8,151
Funds held for clients	3,158	4,903
Prepaid expenses and other current assets	4,985	3,551
Total current assets	114,748	109,830
Property and equipment, net	3,401	3,534
Operating lease right-of-use assets	28,892	19,655
Other assets	3,899	4,730
Total assets	$ 150,940	$ 137,749
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Accounts payable	$ 26,290	$ 30,553
Accrued expenses	29,154	28,396
Funds held for clients	3,064	4,903
Current lease obligations	7,994	6,466
Other current liabilities	13,760	13,482
Total current liabilities	80,262	83,800
Convertible note payable	11,586	11,047
Long-term lease obligations	21,260	12,945
Other long-term liabilities	5,546	3,983
Total long-term liabilities	38,392	27,975
Total liabilities	118,654	111,775
Series C redeemable preferred stock, $0.01 par value per share. 35,000 shares authorized, issued and outstanding at April 30, 2023 and July 31, 2022	35,175	35,180
Stockholders' deficit:		
Series C convertible preferred stock, $0.01 par value per share. 4,965,000 shares authorized at April 30, 2023 and July 31, 2022; zero shares issued and outstanding at April 30, 2023 and July 31, 2022	—	—
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; 60,942,460 issued and outstanding shares at April 30, 2023; 60,529,558 issued and outstanding shares at July 31, 2022	609	605
Additional paid-in capital	7,479,891	7,479,366
Accumulated deficit	(7,487,450)	(7,493,317)
Accumulated other comprehensive income	4,061	4,140
Total stockholders' deficit	(2,889)	(9,206)
Total liabilities, redeemable preferred stock and stockholders' deficit	$ 150,940	$ 137,749

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended April 30, 2023	Three Months Ended April 30, 2022	Nine Months Ended April 30, 2023	Nine Months Ended April 30, 2022
Net revenue	$ 46,142	$ 51,548	$ 148,283	$ 150,223
Cost of revenue	33,218	42,303	108,031	120,672
Gross profit	12,924	9,245	40,252	29,551
Operating expenses:				
Selling, general and administrative	12,619	9,214	33,463	28,899
Total operating expenses	12,619	9,214	33,463	28,899
Operating income	305	31	6,789	652
Other income (expense):				
Interest income	452	3	928	9
Interest expense	(914)	(848)	(2,588)	(2,359)
Other income, net	4,037	2,151	3,961	1,605
Total other income (expense), net	3,575	1,306	2,301	(745)
Income (loss) from continuing operations before income taxes	3,880	1,337	9,090	(93)
Income tax expense	851	11,032	1,630	12,070
Net income (loss) from continuing operations	3,029	(9,695)	7,460	(12,163)
Net income (loss) from discontinued operations	—	39,895	—	(108)
Net income (loss)	3,029	30,200	7,460	(12,271)
Less: Preferred dividends on Series C redeemable preferred stock	(519)	(537)	(1,593)	(1,611)
Net income (loss) attributable to common stockholders	$ 2,510	$ 29,663	$ 5,867	$ (13,882)
Net income (loss) per common shares - basic				
Continuing operations	$ 0.04	$ (0.17)	$ 0.10	$ (0.23)
Discontinued operations	—	0.67	—	—
Net income (loss) attributable to common stockholders	$ 0.04	$ 0.50	$ 0.10	$ (0.23)
Net income (loss) per common shares - diluted				
Continuing operations	$ 0.04	$ (0.17)	$ 0.09	$ (0.23)
Discontinued operations	—	0.67	—	—
Net income (loss) attributable to common stockholders	$ 0.04	$ 0.50	$ 0.09	$ (0.23)
Weighted-average number of common shares outstanding - basic	60,305	59,853	60,186	59,961
Weighted-average number of common shares outstanding - diluted	78,695	59,853	78,559	59,961

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2023	2022	2023	2022
Net income (loss)	$ 3,029	$ 30,200	$ 7,460	$ (12,271)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(819)	(2,461)	999	(2,276)
Pension liability adjustments, net of tax	—	—	(1,078)	—
Other comprehensive loss	(819)	(2,461)	(79)	(2,276)
Comprehensive income (loss)	$ 2,210	$ 27,739	$ 7,381	$ (14,547)

See accompanying notes to unaudited condensed consolidated financial statements

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

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
Balance at January 31, 2023	60,784,589	$ 607	$ 7,479,719	$ (7,489,960)	$ 4,880	$ (4,754)
Net income	—	—	—	3,029	—	3,029
Preferred dividends	—	—	—	(519)	—	(519)
Restricted stock grants	157,871	2	(2)	—	—	—
Share-based compensation	—	—	174	—	—	174
Other comprehensive items	—	—	—	—	(819)	(819)
Balance at April 30, 2023	60,942,460	$ 609	$ 7,479,891	$ (7,487,450)	$ 4,061	$ (2,889)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
Balance at January 31, 2022	60,457,720	$ 605	$ 7,479,073	$ (7,523,765)	$ 7,347	$ (36,740)
Net income	—	—	—	30,200	—	30,200
Preferred dividends	—	—	—	(537)	—	(537)
Restricted stock grants	141,064	1	(1)	—	—	—
Restricted stock forfeitures	(200,000)	(2)	2	—	—	—
Share-based compensation	—	—	111	—	—	111
Other comprehensive items	—	—	—	—	(2,461)	(2,461)
Balance at April 30, 2022	60,398,784	$ 604	$ 7,479,185	$ (7,494,102)	$ 4,886	$ (9,427)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
Balance at July 31, 2022	60,529,558	$ 605	$ 7,479,366	$ (7,493,317)	$ 4,140	$ (9,206)
Net income	—	—	—	7,460	—	7,460
Preferred dividends	—	—	—	(1,593)	—	(1,593)
Restricted stock grants	412,902	4	(4)	—	—	—
Share-based compensation	—	—	529	—	—	529
Other comprehensive items	—	—	—	—	(79)	(79)
Balance at April 30, 2023	60,942,460	$ 609	$ 7,479,891	$ (7,487,450)	$ 4,061	$ (2,889)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
Balance at July 31, 2021	63,099,496	$ 632	$ 7,478,638	$ (7,480,220)	$ 7,162	$ 6,212
Net loss	—	—	—	(12,271)	—	(12,271)
Preferred dividends	—	—	—	(1,611)	—	(1,611)
Issuance of common stock pursuant to employee stock purchase plan	499	—	—	—	—	—
Restricted stock grants	348,789	3	(3)	—	—	—
Restricted stock forfeitures	(3,050,000)	(31)	31	—	—	—
Share-based compensation	—	—	519	—	—	519
Other comprehensive items	—	—	—	—	(2,276)	(2,276)
Balance at April 30, 2022	60,398,784	$ 604	$ 7,479,185	$ (7,494,102)	$ 4,886	$ (9,427)

See accompanying notes to unaudited condensed consolidated financial statements

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

	Nine Months Ended April 30, 2023	Nine Months Ended April 30, 2022
Cash flows from operating activities:		
Net income (loss)	$ 7,460	$ (12,271)
Less: Loss from discontinued operations, net of tax	—	108
Income (loss) from continuing operations	7,460	(12,163)
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation	1,427	1,698
Amortization of deferred financing costs	36	102
Accretion of debt discount	1,510	1,229
Share-based compensation	529	519
Non-cash lease expense	6,760	7,083
Bad debt expense (recovery)	1,136	(3)
Other losses, net	(3,962)	(1,605)
Changes in operating assets and liabilities:		
Accounts receivable, net	2,933	(8,783)
Inventories, net	1,440	(1,291)
Prepaid expenses and other current assets	(1,237)	240
Accounts payable, accrued restructuring and accrued expenses	(3,886)	2,076
Refundable and accrued income taxes, net	(829)	142
Other assets and liabilities	(4,317)	5,489
Net cash provided by (used in) operating activities	9,000	(5,267)
Cash flows from investing activities:		
Additions of property and equipment	(1,311)	(1,142)
Proceeds from the disposition of property and equipment	166	—
Proceeds from sale of securities	1,881	—
Net cash provided by (used in) investing activities	736	(1,142)
Cash flows from financing activities:		
Series C redeemable preferred stock dividend payments	(1,593)	(1,598)
Repayments on capital lease obligations	(38)	(54)
Repayments on convertible debt	(1,149)	—
Net cash used in financing activities	(2,780)	(1,652)
Net effect of exchange rate changes on cash, cash equivalents and restricted cash	895	(774)
Net increase (decrease) in cash, cash equivalents and restricted cash	7,851	(8,835)
Cash, cash equivalents and restricted cash, beginning of period	58,045	66,329
Cash, cash equivalents and restricted cash, end of period	$ 65,896	$ 57,494
Cash and cash equivalents, end of period	$ 62,738	$ 49,914
Restricted cash for funds held for clients, end of period	3,158	7,580
Cash, cash equivalents and restricted cash, end of period	$ 65,896	$ 57,494
Cash flows from discontinued operations:		
Operating activities	$ —	$ (6,738)
Investing activities	—	625
Financing activities	—	4,230
Net cash used in discontinued operations	$ —	$ (1,883)

See accompanying notes to unaudited condensed consolidated financial statements

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

(1) NATURE OF OPERATIONS

Steel Connect, Inc. (the "Company," "Steel Connect," "STCN," "we," "us" or the "Parent"), 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. ModusLink 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 "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 results of operations of the IWCO Direct business are reported as discontinued operations for the prior year period presented. See Note 4 - "Discontinued Operations" for additional information.

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

Liquidity and Capital Resources

Historically, the Parent financed its operations and met its capital requirements primarily through funds generated from operations, the sale of its securities, borrowings from lending institutions and sales 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 by the holder of the Series C Convertible Preferred Stock (as discussed in Note 16 - "Related Party Transactions" and in the Company's Fiscal Year 2022 Form 10-K filed), 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 April 30, 2023, 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 31, 2025. There was no balance outstanding on the Umpqua Revolver as of April 30, 2023. See Note 9 - "Debt" 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 under the Umpqua Revolver 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.

In addition to the above, on April 30, 2023, the Company executed a series of agreements with Steel Partners Holdings L.P. (“Steel Partners”), in which Steel Partners and certain of its affiliates (the "Steel Partners Group") transferred certain marketable securities held by the Steel Partners Group to the Company in exchange for 3.5 million shares of Series E Convertible Preferred Stock of the Company (the "Series E Convertible Preferred Stock", and such transfer and related transactions, the "Transaction"). The Transaction closed on May 1, 2023. The purpose of the Transaction is to provide Steel Connect with access to approximately

$203 million of new capital which will be used for working capital, complementary and strategic acquisitions, and general corporate purposes. See Note 16 - "Related Parties" and Note 18 - "Subsequent Events" for further details.

As of April 30, 2023 and July 31, 2022, the Company had cash and cash equivalents of $62.7 million and $53.1 million, respectively. As of April 30, 2023, the Company had excess working capital of $34.5 million.

(2) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2022 (Fiscal Year 2022), which are contained in the Company's Form 10-K for the Fiscal Year 2022. The results for the nine months ended April 30, 2023 are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP.

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the nine months ended April 30, 2023, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed. Please refer to Note 18 - "Subsequent Events" for further details.

Steel Partners and Steel Connect Exchange Transaction

On May 1, 2023, the Company and Steel Partners Group transferred certain marketable securities held by the Steel Partners Group to the Company in exchange for 3.5 million shares of Series E Convertible Preferred Stock of Steel Connect (the “Series E Convertible Preferred Stock”, and, such transfer and related transactions, the “Exchange Transaction”). Following recent approval by the Steel Connect stockholders pursuant to NASDAQ Marketplace Rules, the Series E Convertible Preferred Stock is convertible into an aggregate of 184.9 million shares of Steel Connect common stock, par value $0.01 per share (the “common stock” or “Common Stock”), and will vote together with the Steel Connect common stock and participate in any dividends paid on the Steel Connect common stock, in each case on an as-converted basis. Upon conversion of the Series E Convertible Preferred Stock, the Steel Partners Group would hold approximately 85% of the outstanding equity interests of Steel Connect. Steel Partners and certain of its affiliates which currently hold more than 50.0% ownership on a fully converted basis in Steel Connect upon the signing of the agreements related to the Exchange Transaction voted in favor of the stockholder proposal relating to the Series E Convertible Preferred Stock. Refer to Note 18 - "Subsequent Events" for further details.

Reclassifications

On the statement of cash flows for the nine months ended April 30, 2022, the Company reclassified bad debt recovery as a non-cash adjustment to net loss which totaled $3.0 thousand from Accounts receivable, net to Bad debt recovery. This reclassification was made to prior year balances to conform with current reporting and had no impact on net loss or stockholder's deficit.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Issued and Not Yet Implemented

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Loses 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. Early adoption is permitted. The Company is evaluating the potential impact of this guidance, but does not expect the new standard to have a material impact 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 the assessment of 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 April 30, 2023 are not expected to have a material impact on our financial condition, results of operations or liquidity.

(4) DISCONTINUED OPERATIONS

As discussed in Note 1 - "Nature of Operations", 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 the prior year periods presented.

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

	Three months ended April 30, 2022	Nine months ended April 30, 2022
Net revenue	$ 18,167	$ 165,542
Cost of revenue	17,894	156,697
Gross profit	273	8,845
Operating expenses:		
Selling, general and administrative	4,517	30,744
Amortization of intangible assets	1,218	9,303
Total operating expenses	5,735	40,047
Operating loss	(5,462)	(31,202)
Other income:		
Gain upon deconsolidation of IWCO Direct	38,043	38,043
Interest expense	(1,848)	(16,111)
Total other income, net	36,195	21,932
Income (loss) from discontinued operations before income taxes	30,733	(9,270)
Income tax benefit	(9,162)	(9,162)
Net income (loss) from discontinued operations	$ 39,895	$ (108)

(5) INVENTORIES, NET

The table below presents the components of Inventories, net:

	April 30, 2023	July 31, 2022
	(In thousands)	
Raw materials	$ 5,990	$ 7,330
Work-in-process	143	124
Finished goods	786	697
	$ 6,919	$ 8,151

(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	April 30, 2023	July 31, 2022
Accrued Expenses	(In thousands)	
Accrued audit, tax and legal	$ 8,058	$ 4,564
Accrued compensation	6,585	5,099
Accrued taxes	2,929	3,344
Accrued price concessions	2,776	4,549
Accrued occupancy costs	1,639	1,671
Accrued IT costs	638	1,108
Accrued other	6,529	8,061
Total accrued expenses	$ 29,154	$ 28,396

	April 30, 2023	July 31, 2022
Other Current Liabilities	(In thousands)	
Accrued pricing liabilities	$ 9,435	$ 9,435
Deferred revenue - current	2,949	2,705
Other	1,376	1,342
Total other current liabilities	$ 13,760	$ 13,482

As of both April 30, 2023 and July 31, 2022, the Company had accrued pricing liabilities of approximately $9.4 million. 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 April 30, 2023 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) RESTRUCTURING

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 $0.1 million and $0.9 million during the three and nine months ended April 30, 2022. In February 2023, ModusLink reorganized its call center operations in the United States and recorded a restructuring charge of approximately $0.1 million during the three and nine months ended April 30, 2023. The restructuring charges recorded in three and nine months ended April 30, 2023 were primarily composed of employee termination costs.

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

	Three months ended April 30,		Nine months ended April 30,	
	2023	2022	2023	2022
	(In thousands)			
Cost of revenue	$ 97	$ (16)	$ 97	$ 664
Selling, general and administrative	—	134	—	310
	$ 97	$ 118	$ 97	$ 974

Changes to the restructuring liability during the nine months ended April 30, 2023 were as follows:

	(in thousands)
Balance as of July 31, 2022	$ 892
Costs incurred	97
Cash payments	(733)
Non-cash relief of accrual	—
Change in estimates	—
Balance as of April 30, 2023	$ 256

The restructuring liability is recorded as a component of accrued expenses in the condensed consolidated balance sheets.

(8) LEASES

The table below presents the components of the Company's net lease expense:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2023	2022	2023	2022
	(In thousands)			
Operating lease cost	$ 2,636	$ 2,596	$ 7,538	$ 7,569
Short-term lease expense	394	482	1,269	1,221
Variable lease cost	—	4	7	20
Interest on finance lease liabilities	—	1	—	2
Sublease income	(222)	(270)	(786)	(483)
	$ 2,808	$ 2,813	$ 8,028	$ 8,329

Supplemental Cash Flow Information

Supplemental cash flow information related to the Company's leases was as follows:

	Nine Months Ended April 30,	
	2023	2022
	(In thousands)	
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$ 7,224	$ 7,450
Operating cash flows from finance leases	$ —	$ 2
Financing cash flows from finance leases	$ 38	$ 54

(9) DEBT

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

	April 30, 2023	July 31, 2022
	(In thousands)	
Unsecured		
7.50% Convertible Senior Note due September 1, 2024	$ 13,940	$ 14,940
Credit Facilities		
Umpqua Revolver	—	—
Less: unamortized discounts and issuance costs[(a)]	(2,397)	(3,972)
Total debt, net	$ 11,543	$ 10,968

[(a)] *Amounts include deferred debt issuance costs related to credit facilities of $43 thousand and $79 thousand as of April 30, 2023 and July 31, 2022, respectively, which are presented in Prepaid expenses and other current assets and 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").

On March 9, 2023 (the "Amendment Date"), the Company and SPHG Holdings entered into an amendment to the SPHG Note (the “SPHG Note Amendment”). Pursuant to the SPHG Note Amendment, the maturity date of the SPHG Note was extended six months from March 1, 2024 to September 1, 2024. In addition, the Company repaid $1.0 million in principal amount of the SPHG Note on the Amendment Date, and will be required to repay an additional $1.0 million principal amount of the note on the three month anniversary of the SPHG Note Amendment, which occurred on June 9, 2023. In connection with the SPHG Note Amendment, the Company paid SPHG Holdings a cash amendment fee of $0.1 million, and derecognized $0.2 million of the debt discount in proportion to the reduction of the principal balance during the current period. No other changes were made to the terms of the SPHG Note besides the items discussed.

SPHG Holdings has the right, at its option, prior to the close of business on the business day immediately preceding September 1, 2024, 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 April 30, 2023, the if-converted value of the SPHG Note did not exceed the principal value of the SPHG Note. As of April 30, 2023, the remaining period over which the unamortized discount will be amortized is 16 months. As of April 30, 2023 and July 31, 2022, the net carrying value of the SPHG Note was $11.6 million and $11.0 million, respectively. The effective interest rate on the SPHG Note, including accretion of the discount, prior to the SPHG Note Amendment was 27.8%, and the effective interest rate on the SPHG Note subsequent to the SPHG Note Amendment is 23.0%.

The following tables reflect the components of the SPHG Note:

	April 30, 2023	July 31, 2022
	(In thousands)	
Carrying amount of equity component	$ 8,171	$ 8,200
Principal amount of note	$ 13,940	$ 14,940
Unamortized debt discount	(2,354)	(3,893)
Net carrying amount	$ 11,586	$ 11,047

	Three months ended April 30,		Nine months ended April 30,	
	2023	2022	2023	2022
	(In thousands)			
Interest expense related to contractual interest coupon	$ 271	$ 277	$ 844	$ 849
Interest expense related to accretion of the discount	632	429	1,688	1,229
Interest expense related to revolving credit facilities (see below)	11	131	36	200
Other	—	11	20	81
Total interest expense	$ 914	$ 848	$ 2,588	$ 2,359

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 31, 2025. 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.

On March 13, 2023, ModusLink and Umpqua Bank entered into an amendment to the Umpqua Revolver (the "Umpqua Revolver Amendment") to extend the expiration date of the facility from March 16, 2024 to March 31, 2025. There were no fees associated with the extension.

As of April 30, 2023, 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 April 30, 2023, ModusLink had available borrowing capacity of $11.9 million and there was $0.6 million available for letters of credit.

(10) 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 "Reith litigation"). 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 of Directors, 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 Partners, 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 stockholders and therefore unjustly enriched Steel Partners, 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 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 $3.0 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 would be 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, 2022. The parties filed the status report on November 23, 2022, reporting that due to the termination of the proposed Merger on November 15, 2022, the parties were conferring on the next steps, and therefore proposed providing another status report within 30 days, or on other such date as the court may order. On November 28, 2022, the court issued a minute order advising that no further status updates were required to be filed in the matter and noting that the court would remain available to hear requests for relief as needed. No trial date or pretrial deadlines are currently scheduled. The possible recovery, if any, with respect to this dispute cannot be determined as of the date of this Quarterly Report on Form 10-Q.

(11) REVENUE RECOGNITION

Disaggregation of Revenue

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

	Three months ended April 30,		Nine months ended April 30,	
	2023	2022	2023	2022
	(In thousands)			
Major Goods/Service Lines				
Supply chain management services	$ 45,826	$ 51,123	147,185	148,783
Other	316	425	1,098	1,440
	$ 46,142	$ 51,548	$ 148,283	$ 150,223
Timing of Revenue Recognition				
Services transferred over time	$ 46,142	$ 51,548	148,283	150,223
	$ 46,142	$ 51,548	$ 148,283	$ 150,223

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, and fees for professional services. 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.

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 asset when the Company recognizes revenue based on efforts expended but the right to such amount is conditional upon satisfaction of another performance obligation. The Company's contract assets are all short-term in nature and are included in prepaid expenses and other current assets in the condensed 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 condensed consolidated balance sheets.

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

	April 30, 2023	July 31, 2022
	(In thousands)	
Accounts receivable, trade, net	$ 36,948	$ 40,083
Contract assets	685	369
Deferred revenue - current	$ 2,949	$ 2,705
Deferred revenue - long-term	124	134
Total deferred revenue	$ 3,073	$ 2,839

Remaining Performance Obligations

Remaining performance obligations are comprised of deferred revenue. Changes in deferred revenue during the nine months ended April 30, 2023 and April 30, 2022, were as follows:

	Nine Months Ended April 30,	
	2023	2022
	(In thousands)	
Balance at beginning of period	$ 2,839	$ 2,320
Deferral of revenue	1,595	2,049
Recognition of deferred amounts upon satisfaction of performance obligation	(1,361)	(1,140)
Balance at end of period	$ 3,073	$ 3,229

The Company expects to recognize approximately $2.9 million of the deferred revenue over the next twelve months and the remaining $0.1 million beyond that time period.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

(12) INCOME TAXES

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the nine months ended April 30, 2023, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of both April 30, 2023 and July 31, 2022, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately $0.8 million.

On August 16, 2022, the Inflation Reduction Act (“IRA”) was signed into law in the United States. Among other provisions, the IRA includes a 15.0% corporate minimum tax rate on the adjusted financial statement income of certain large corporations and a 1.0% excise tax on corporate stock repurchases made after December 31, 2022 by U.S. publicly traded corporations and certain U.S. subsidiaries of non-U.S. publicly traded corporations, as well as significant enhancements of U.S. tax incentives relating to climate and energy investments. Although we do not expect the IRA to have a material impact on our consolidated financial statements, the full effect on us is uncertain.

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.

We do not expect the CARES Act to have a material impact on our consolidated financial statements.

Uncertain Tax Positions

In accordance with the Company's accounting policy, interest related to unrecognized tax benefits is included in the income tax expense line of the condensed consolidated statements of operations. As of April 30, 2023 and July 31, 2022, the liabilities for interest expense related to uncertain tax positions were $0.1 million and $0.1 million, respectively. The Company expects $0.2 million of unrecognized tax benefits and related interest to reverse in the next twelve months. The Company is subject to U.S. federal income tax and various state, local and international income taxes in numerous jurisdictions. The federal and state tax returns are generally subject to tax examinations for the tax years ended July 31, 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.

(13) EARNINGS (LOSS) PER SHARE

The following table reconciles net earnings (loss) per share for the three and nine months ended April 30, 2023 and 2022:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2023	2022	2023	2022
	(In thousands, except per share data)			
Reconciliation of net income (loss) to net income (loss) attributable to common stockholders after assumed conversions:				
Net income (loss) from continuing operations	$ 3,029	$ (9,695)	$ 7,460	$ (12,163)
Income (loss) from discontinued operations	—	39,895	—	(108)
Net income (loss)	3,029	30,200	7,460	(12,271)
Less: Preferred dividends on redeemable preferred stock	(519)	(537)	(1,593)	(1,611)
Net income (loss) attributable to common stockholders	$ 2,510	$ 29,663	$ 5,867	$ (13,882)
Effect of dilutive securities:				
Dividends on preferred stock	519	—	1,593	—
Net income (loss) attributable to common stockholders - assuming dilution	$ 3,029	$ 29,663	$ 7,460	$ (13,882)
Net income (loss) per common share - basic				
Net income (loss) from continuing operations	$ 0.04	$ (0.17)	$ 0.10	$ (0.23)
Net income from discontinued operations	—	0.67	—	—
Net income (loss) attributable to common stockholders	$ 0.04	$ 0.50	$ 0.10	$ (0.23)
Net income (loss) per common share - diluted				
Net income (loss) from continuing operations	$ 0.04	$ (0.17)	$ 0.09	$ (0.23)
Net income from discontinued operations	—	0.67	—	—
Net income (loss) attributable to common stockholders	$ 0.04	$ 0.50	$ 0.09	$ (0.23)
Weighted average common shares outstanding - basic	60,305	59,853	60,186	59,961
Effect of dilutive securities:				
Common stock equivalents - Restricted stock and restricted stock shares	533	—	516	—
Common stock equivalents - Preferred stock	17,857	—	17,857	—
Weighted average common shares outstanding - diluted	78,695	59,853	78,559	59,961

Basic net (loss) income per common share is calculated using the weighted average number of common shares outstanding during the period.

Diluted net (loss) income per common share considers the impact of potentially dilutive securities except in periods in which there is a net loss because the inclusion of the potential common shares would have an anti-dilutive effect. Diluted net (loss) income per common share, if any, gives effect to diluted stock options (calculated based on the treasury stock method), non-vested restricted stock shares purchased under the employee stock purchase plan and shares issuable upon debt or preferred stock conversion (calculated using an as-if converted method).

For the three months ended April 30, 2023, $0.7 million of interest expense, net of tax related to convertible debt was excluded from the numerator in the calculation of diluted net income per share as their inclusion would have been antidilutive. For the three months ended April 30, 2022, $0.7 million of interest expense, net of tax impact related to convertible debt and $0.5 million of preferred dividends were excluded from the numerator in the calculation of diluted net (loss) income per share as their inclusion would have been antidilutive.

For the three months ended April 30, 2023, 5.9 million common stock equivalent shares (including those related to convertible debt) were excluded from the denominator in the calculation of diluted net income per share as their inclusion would have been antidilutive. For the three months ended April 30, 2022, 24.6 million common stock equivalent shares (including those related to convertible debt and preferred stock) were excluded from the denominator in the calculation of diluted net (loss) income per share as their inclusion would have been antidilutive.

For the nine months ended April 30, 2023, $2.3 million of interest expense, net of tax related to convertible debt was excluded from the numerator in the calculation of diluted net income per share as their inclusion would have been antidilutive. For the nine months ended April 30, 2022, $2.1 million of interest expense, net of tax impact related to convertible debt and $1.6 million of preferred dividends were excluded from the numerator in the calculation of diluted net loss per share as their inclusion would have been antidilutive.

For the nine months ended April 30, 2023, 5.9 million common stock equivalent shares (including those related to convertible debt) were excluded from the denominator in the calculation of diluted net income per share as their inclusion would have been antidilutive. For the nine months ended April 30, 2022, 24.6 million common stock equivalent shares (including those related to convertible debt and preferred stock) were excluded from the denominator in the calculation of diluted net loss per share as their inclusion would have been antidilutive.

(14) COMPREHENSIVE INCOME (LOSS)

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

	Foreign Currency Items	Pension Items	Total
		(In thousands)	
Accumulated other comprehensive income (loss) as of July 31, 2022	$ 6,063	$ (1,923)	$ 4,140
Foreign currency translation adjustment	999	—	999
Pension liability adjustments	—	(1,078)	(1,078)
Net current-period other comprehensive income	999	(1,078)	(79)
Accumulated other comprehensive income (loss) as of April 30, 2023	$ 7,062	$ (3,001)	$ 4,061

	Foreign Currency Items	Pension Items	Total
		(In thousands)	
Accumulated other comprehensive income (loss) as of July 31, 2021	$ 9,762	$ (2,600)	$ 7,162
Foreign currency translation adjustment	(2,276)	—	(2,276)
Net current-period other comprehensive income	(2,276)	—	(2,276)
Accumulated other comprehensive income (loss) as of April 30, 2022	$ 7,486	$ (2,600)	$ 4,886

During the year ended July 31, 2020, a Netherlands defined benefit pension plan was amended such that 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 (loss). At that time, the active plan participants were moved into a new defined benefit contribution pension plan. During the nine months ended April 30, 2023, the Company recorded an increase of approximately $1.1 million to accrued pension liabilities for the defined benefit pension plan as it was determined that plan participants are entitled to unconditional indexation of benefits for as long as they remain in active service with the Company.

(15) 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 allocated 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:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2023	2022	2023	2022
	(In thousands)			
Net revenue:				
Supply Chain	$ 46,142	$ 51,548	148,283	150,223
Total segment net revenue	46,142	51,548	$ 148,283	$ 150,223
Operating income:				
Supply Chain	5,249	1,548	16,488	5,894
Total segment operating income	5,249	1,548	16,488	5,894
Corporate-level activity	(4,944)	(1,517)	(9,699)	(5,242)
Total operating income	305	31	6,789	652
Total other income (expense), net	3,575	1,306	2,301	(745)
Income (loss) before income taxes	$ 3,880	$ 1,337	$ 9,090	$ (93)

	April 30, 2023	July 31, 2022
	(In thousands)	
Total assets:		
Supply Chain	$ 115,682	$ 101,637
Corporate	35,258	36,112
Total assets	$ 150,940	$ 137,749

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2023	2022	2023	2022
	(In thousands)			
Capital expenditures	$ 445	$ 316	$ 1,311	$ 1,142
Depreciation expense	503	523	1,427	1,698

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2023	2022	2023	2022
	(In thousands)			
Mainland China	13,852	17,858	48,049	53,248
United States	12,917	13,183	38,262	37,336
Czech	6,202	5,004	19,497	11,761
Singapore	4,872	6,180	15,149	18,056
Netherlands	4,705	4,739	14,940	14,655
Other	3,594	4,584	12,386	15,167
	$ 46,142	$ 51,548	$ 148,283	$ 150,223

(16) RELATED PARTY TRANSACTIONS

As of April 30, 2023, SPHG Holdings and its affiliates, including Steel Partners, Handy & Harman Ltd. and Steel Partners Ltd., beneficially owned approximately 52.6% 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 Partners 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, the President and a director of Steel Holdings GP, is also a director. Following the receipt of stockholder approval of the issuance of the Series E Convertible Preferred Stock on June 6, 2023, upon conversion of the Series E Convertible Preferred Stock, the Steel Partners Group (as defined above) would hold approximately 85% of the outstanding equity interests of Steel Connect. Refer to Note 18 - "Subsequent Events" for further details.

SPHG Note Transaction

On February 28, 2019, the Company entered into a SPHG Note Purchase Agreement with SPHG Holdings, whereby SPHG Holdings agreed to loan the Company $14.9 million in exchange for the SPHG Note.

On March 9, 2023, the Company and SPHG Holdings entered into an amendment to the SPHG Note. Pursuant to the SPHG Note Amendment, the maturity date of the SPHG Note was extended six months from March 1, 2024 to September 1, 2024. In addition, the Company repaid $1.0 million in principal amount of the SPHG Note on the Amendment Date, and will be required to repay an additional $1.0 million principal amount of the note on the three month anniversary of the SPHG Note Amendment, which occurred on June 9, 2023. In connection with the SPHG Note Amendment, the Company paid SPHG Holdings a cash amendment fee of $0.1 million, and derecognized $0.2 million of the debt discount in proportion to the reduction of the principal balance during the current period. No other changes were made to the terms of the SPHG Note besides the items discussed.

As of April 30, 2023, SPHG Holdings held $13.9 million principal amount of the SPHG Note, compared to $14.9 million principal amount at July 31, 2022. As of April 30, 2023 and July 31, 2022, the net carrying value of the SPHG Note was $11.6 million and $11.0 million, respectively. During the three months ended April 30, 2023 and 2022, the Company recognized interest expense of $0.9 million and $0.7 million, respectively, associated with the SPHG Note. During the nine months ended April 30, 2023 and 2022, the Company recognized interest expense of $2.5 million and $2.1 million, respectively, associated with the SPHG Note.

Series C Convertible Preferred Stock Transaction

On December 15, 2017, the Company entered into a Preferred Stock Purchase Agreement with SPHG Holdings, pursuant to which the Company issued 35,000 shares of the Company's newly created Series C Convertible Preferred Stock to SPHG Holdings at a price of $1,000 per share, for an aggregate purchase consideration of $35.0 million. The terms, rights, obligations and preferences of the Series C Convertible Preferred Stock are set forth in the Series C Certificate of Designations, which has been filed with the Secretary of State of the State of Delaware. During each of the three months ended April 30, 2023 and 2022, the Company paid dividends of $0.5 million associated with the Series C Convertible Preferred Stock. During each of the six months ended April 30, 2023 and 2022, the Company paid dividends of $1.6 million associated with the Series C Convertible Preferred Stock.

On or after December 15, 2022, each holder of Preferred Stock can also require the Company to redeem its Series C Convertible Preferred Stock in cash at a price equal to the Liquidation Preference (as defined in Series C Certificate of

Designations), or approximately $35.2 million. As of April 30, 2023, this right had not been exercised by holders of the Series C Convertible Preferred Stock.

Series E Convertible Preferred Stock Transaction

On April 30, 2023, the Company entered into a series of agreements with Steel Partners, in which the Steel Partners Group transferred certain marketable securities held by the Steel Partners Group to the Company in exchange for 3.5 million shares of Series E Convertible Preferred Stock. The transfer and closing of the transaction was executed on May 1, 2023, making the transaction a subsequent event. As such, the Series E Convertible Preferred Stock are not included in the beneficial ownership calculation as of April 30, 2023 above. See Note 18 - "Subsequent Events" for further details.

STCN Management Services Agreement

On June 14, 2019, the Company entered into an agreement (the "STCN Management Services Agreement") with Steel Services Ltd. ("Steel Services"), an indirect wholly-owned subsidiary of Steel Partners. The Management Services Agreement was effective as of June 1, 2019. Pursuant to the STCN Management Services Agreement, Steel Services provides the Company and its subsidiaries with the non-exclusive services of certain employees, including certain executive officers and other corporate services. In connection with the IWCO Direct Disposal, the monthly fee under the STCN 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 STCN Management Services Agreement for the three months ended April 30, 2023 and 2022 were $0.6 million and $0.8 million, respectively. Total expenses incurred related to the STCN Management Services Agreement for the nine months ended April 30, 2023 and 2022 were $1.7 million and $2.5 million, respectively. As of April 30, 2023 and July 31, 2022, amounts due to Steel Services was $0.7 million and $1.0 million, respectively.

(17) FAIR VALUE MEASUREMENTS

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

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

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

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

The carrying value of cash and cash equivalents, accounts receivable, restricted cash, accounts payable, current liabilities and the revolving line of credit under the Umpqua Revolver approximate fair value because of the short maturity of these instruments. We believe that the carrying value of our long-term debt approximates fair value because the stated interest rates of this debt is consistent with current market rates. The carrying value of capital lease obligations approximates fair value, as estimated by using discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

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 April 30, 2023 and July 31, 2022, classified by fair value hierarchy:

(In thousands)	April 30, 2023	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Assets:				
Money market funds	$ 31,716	$ 31,716	$ —	$ —

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

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 and long-term debt, carrying value approximates fair value for these items due to their short-term nature. The Company believes that the carrying value of the liability component of the SPHG Note and our long-term debt 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.

(18) SUBSEQUENT EVENTS

Transfer and Exchange Agreement

On April 30, 2023, the Company and Steel Partners, Steel Excel, Inc. ("Steel Excel"), and Steel Partners' wholly-owned subsidiary WebFinancial Holding Corporation ("WebFinancial," and together with Steel Excel, the "Exchanging Parties"), entered into a Transfer and Exchange Agreement dated as of April 30, 2023 (the "Exchange Agreement"). Pursuant to the Exchange Agreement, on April 30, 2023, the Exchanging Parties exchanged an aggregate of 3.6 million shares of common stock, par value $0.10 per share, of Aerojet (the "Aerojet Shares") held by the Exchanging Parties for 3.5 million shares of newly created Series E Convertible Preferred Stock of the Company (the "Series E Convertible Preferred Stock," and such exchange and related transactions, the "Transaction") having a liquidation preference equal to $58.1087 per share. Pursuant to the Exchange Agreement, the Company held a special stockholders' meeting on June 6, 2023 to consider and vote upon the rights of the Series E Convertible Preferred Stock to vote and receive dividends together with the common stock (as defined below) on an as- converted basis and the issuance of common stock upon conversion of the Series E Convertible Preferred Stock by the holders at their option, pursuant to the rules and regulations of Nasdaq (the "Nasdaq Proposal") and any other matters which, following the closing of the Transaction, the Company's board of directors (the "STCN Board," “Board of Directors” or “Board") deemed appropriate to consider and vote upon at the special stockholders’ meeting. Following the approval of the issuance of the Series E Convertible Preferred Stock by the Company’s stockholders at the special stockholders' meeting, the Series E Convertible Preferred Stock is convertible into an aggregate of 184.9 million shares of common stock, subject to adjustment as set forth in the Series E Certificate of Designations, and will vote together with the common stock and participate in any dividends paid on the common stock (except as described below), in each case, on an as-converted basis.

The Exchange Transaction will be accounted for as of May 1, 2023, which is the date the consideration was exchanged between the Company and Steel Partners.

Stockholders' Agreement

Concurrently with the execution of the Exchange Agreement, the Company, Steel Partners, Steel Excel, WebFinancial, WHX CS, LLC, WF Asset Corp., Steel Partners Ltd., Warren G. Lichtenstein and Jack L. Howard (together, the "SP Investors") entered into a Stockholders' Agreement dated as of April 30, 2023 (the "Stockholders' Agreement"). Pursuant to the Stockholders' Agreement, the parties agreed to certain aspects of the Company's governance, including the maintenance of the Board size at seven directors and the creation of an Independent Audit Committee or Disinterested Audit Committee (as defined therein).

The Stockholders' Agreement further provides that (a) prior to September 1, 2025 the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable, is required for the following: (i) a voluntary delisting of the common stock from the applicable stock exchange or a transaction (including a merger, recapitalization, stock split or otherwise) which results in the delisting of the common stock, STCN ceasing to be an SEC reporting company, or STCN filing a Form 25 or Form 15 or any similar form with the SEC; (ii) an amendment to the terms of the Management Services Agreement (the "Services Agreement") dated June 14, 2019, by and between STCN and Steel Services Ltd.; and (iii) any related party transaction between STCN and the SP Investors and their subsidiaries and affiliates; (b) prior to September 1, 2028, the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable, is required for the Board to approve a going private transaction pursuant to which Steel Partners or its subsidiaries or affiliates acquires the outstanding shares of common stock they do not own (or any alternative transaction that would have the same impact); and (c) until the Final Sunset Date, the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable, is required (i) for the Board to approve a short-form or squeeze-out merger between STCN and the SP Investors; or (ii) prior to any transfer of equity interests in STCN by the members of the SP Group (as defined in the Stockholders' Agreement) if such transfers would result in 80% of the voting power and value of the equity interests in STCN that are held by the members of the SP Group being held by one corporate entity.

The Stockholders' Agreement also provides that 70% of the net proceeds received by the Company upon resolution of the Reith litigation will be distributed to the Company’s stockholders with the SP Investors agreeing to waive their portion of any such distribution to the extent of any shares of common stock held as of the date of the Stockholders’ Agreement or issuable upon conversion of the Series E Convertible Preferred Stock held by the SP Investors and the Series C Convertible Preferred Stock of STCN, and the SPHG Note. Any amendment to the Stockholders’ Agreement by the Company prior to the date that any person or group of related persons owns 100% of the equity securities of the Company requires the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable.

Voting Agreement

Concurrently with the execution of the Exchange Agreement, the SP Investors and the Company entered into a Voting Agreement, dated as of April 30, 2023 (the “Voting Agreement”). Pursuant to the terms and conditions set forth in the Voting

Agreement, each SP Investor agreed to (i) vote, or cause to be voted, all securities of the Company beneficially owned by each such SP Investor for the approval of the Nasdaq Proposal and against any transaction or proposal that may delay, impair or nullify the approval of the Nasdaq Proposal; (ii) not enter into an agreement to vote in a manner inconsistent with the foregoing; and (iii) not transfer such Shares of common stock and Subject Shares (as defined in the Stockholders' Agreement), without the prior consent of the Company's audit committee, subject to certain standard exceptions. As the SP Investors already owned more than a majority of the voting power of the Company when they signed the Voting Agreement, approval of the Nasdaq Proposal was assured, and approval was received at a special meeting of stockholders held on June 6, 2023. The STCN Board, acting on the unanimous recommendation of a strategic planning committee of the STCN Board consisting solely of independent and disinterested directors of STCN (the "Strategic Planning Committee"), approved the Transaction. The Strategic Planning Committee exclusively negotiated the terms of the Transaction with Steel Partners, with the assistance of its independent legal counsel and financial advisors, which also issued a fairness opinion with respect to the Transaction.

Stockholder Approval of Reverse/Forward Stock Split

At the special stockholders meeting, the stockholders also approved proposals to amend the Company's restated certificate of incorporation (the "Charter"), to effect a 1-for-3,500 reverse stock split of the Common Stock (the "Reverse Stock Split"), followed immediately by a 375-for-1 forward stock split of the Common Stock (the "Forward Stock Split," and, together with the Reverse Stock Split, the "Reverse/Forward Stock Split"). On June 7, 2023, the Board approved the Reverse/Forward Stock Split, and as such, the Board directed the Company to file with the State of Delaware certificates of amendment to our Charter to effectuate the Reverse/Forward Stock Split. Each share of Common Stock held by a stockholder of record owning fewer than 3,500 shares of Common Stock immediately prior to the effective time of the Reverse Stock Split (the "effective time") will be converted into the right to receive a payment in cash (without interest) equal to the fair value of such shares as of the time when those entitled to receive such payments are determined, which shall be an amount equal to such number of shares of Common Stock held multiplied by the average of the closing sales prices of the Common Stock on Nasdaq for the five consecutive trading days immediately preceding the effective date of the Reverse Stock Split, and each share of Common Stock held by a stockholder of record owning 3,500 shares or more immediately prior to the effective time of the Reverse Stock Split will be converted into a new number of shares of Common Stock based on a ratio of 375 shares of Common Stock for each share of Common Stock owned immediately following the Reverse Stock Split, including any fractional shares owned following the Reverse Stock Split; however, with respect to any fractions of a share of Common Stock that may be held as a result of the Forward Stock Split, stockholders will receive a payment in cash (without interest) equal to the fair value of such fractions as of the time when those entitled to receive such fractions are determined, which shall be an amount equal to such fractions multiplied by the average of the closing sales prices of the Common Stock on Nasdaq for the five consecutive trading days immediately preceding the effective date of the Reverse/Forward Stock Split (with such average closing sales prices being adjusted to give effect to the Reverse/Forward Stock Split).

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

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the Securities Act of 1933, as amended, that involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those risks discussed elsewhere in this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on November 9, 2022, and other subsequent reports filed with or furnished to the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as required by law.

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

Overview

Steel Connect, Inc. (the "Company," “Steel Connect,” “STCN,” “we” or “us”) is a holding company operating 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.

Steel Connect and Steel Partners Exchange Transaction

Transfer and Exchange Agreement

On April 30, 2023, the Company and Steel Partners, Steel Excel, Inc. ("Steel Excel"), Steel Partners' wholly-owned subsidiary WebFinancial Holding Corporation ("WebFinancial," and together with Steel Excel, the "Exchanging Parties"), entered into a Transfer and Exchange Agreement dated as of April 30, 2023 (the "Exchange Agreement"). Pursuant to the Exchange Agreement, on April 30, 2023, the Exchanging Parties exchanged an aggregate of 3,597,744 shares of common stock, par value $0.10 per share, of Aerojet (the "Aerojet Shares") held by the Exchanging Parties for 3,500,000 shares of newly created Series E convertible preferred stock of the Company (the "Series E Convertible Preferred Stock," and such exchange and related transactions, the "Transaction") having a liquidation preference equal to $58.1087 per share. Pursuant to the Exchange Agreement, the Company held a special stockholders' meeting on June 6, 2023 to consider and vote upon the rights of the Series E Convertible Preferred Stock to vote and receive dividends together with the common stock, par value $0.01 per share (the “common stock” or “Common Stock”) on an as- converted basis and the issuance of shares of common stock upon conversion of the Series E Convertible Preferred Stock by the holders at their option, pursuant to the rules and regulations of Nasdaq (the "Nasdaq Proposal") and any other matters which, following the closing of the Transaction, the Company's board of directors (the "STCN Board," “Board of Directors” or “Board”) deemed appropriate to consider and vote upon at the special stockholders’ meeting. Following approval the issuance of the Series E Convertible Preferred Stock by the Company’s stockholders at the special stockholders’ meeting, the Series E Convertible Preferred Stock will be convertible into an aggregate of 184,891,318 shares of common stock, subject to adjustment as set forth in the Certificate of Designation, and will vote together with the common stock and participate in any dividends paid on the common stock (except as described below), in each case, on an as-converted basis.

The Exchange Transaction will be accounted for as of May 1, 2023, which is the date the consideration was exchanged between the Company and Steel Partners.

Stockholders' Agreement

Concurrently with the execution of the Exchange Agreement, the Company, Steel Partners, Steel Excel, WebFinancial, WHX CS, LLC, WF Asset Corp., Steel Partners Ltd., Warren G. Lichtenstein and Jack L. Howard (together, the "SP Investors") entered into a Stockholders' Agreement dated as of April 30, 2023 (the "Stockholders' Agreement"). Pursuant to the Stockholders'

Agreement, the parties agreed to certain aspects of the Company's governance, including the maintenance of the Board size at seven directors and the creation of an Independent Audit Committee or Disinterested Audit Committee (as defined therein).

The Stockholders' Agreement further provides that (A) prior to September 1, 2025 the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable, is required for the following: (i) a voluntary delisting of the common stock from the applicable stock exchange or a transaction (including a merger, recapitalization, stock split or otherwise) which results in the delisting of the common stock, STCN ceasing to be an SEC reporting company, or STCN filing a Form 25 or Form 15 or any similar form with the SEC; (ii) an amendment to the terms of the Management Services Agreement (the "Services Agreement") dated June 14, 2019, by and between STCN and Steel Services Ltd.; and (iii) any related party transaction between STCN and the SP Investors and their subsidiaries and affiliates; (B) prior to September 1, 2028, the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable, is required for the Board to approve a going private transaction pursuant to which Steel Partners or its subsidiaries or affiliates acquires the outstanding Shares of common stock they do not own (or any alternative transaction that would have the same impact); and (C) until the Final Sunset Date, the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable, is required (i) for the Board to approve a short-form or squeeze-out merger between STCN and the SP Investors; or (ii) prior to any transfer of equity interests in STCN by the members of the SP Group (as defined in the Stockholders' Agreement) if such transfers would result in 80% of the voting power and value of the equity interests in STCN that are held by the members of the SP Group being held by one corporate entity.

The Stockholders' Agreement also provides that 70% of the net proceeds received by the Company upon resolution of the Reith v. Lichtenstein, et al., C.A. No. 2018-0277-MTZ (Del. Ch. 2018) class and derivative action will be distributed to the Company’s stockholders with the SP Investors agreeing to waive their portion of any such distribution to the extent of any shares of common stock held as of the date of the Stockholders’ Agreement or issuable upon conversion of the Series E Convertible Preferred Stock held by the SP Investors and the Series C Convertible Preferred Stock, par value $0.01 per share, of STCN (the “Series C Convertible Preferred Stock”), and the 7.50% Convertible Senior Note due 2024 (the “SPHG Note”). Any amendment to the Stockholders’ Agreement by the Company prior to the date that any person or group of related persons owns 100% of the equity securities of the Company requires the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable.

Voting Agreement

Concurrently with the execution of the Exchange Agreement, the SP Investors and the Company entered into a Voting Agreement, dated as of April 30, 2023 (the “Voting Agreement”). Pursuant to the terms and conditions set forth in the Voting Agreement, each SP Investor has agreed to (i) vote, or cause to be voted, all securities of the Company beneficially owned by each such SP Investor for the approval of the Nasdaq Proposal and against any transaction or proposal that may delay, impair or nullify the approval of the Nasdaq Proposal; (ii) not enter into an agreement to vote in a manner inconsistent with the foregoing; and (iii) not transfer such common stock and Subject Shares (as defined in the Stockholders' Agreement), without the prior consent of the Company’s audit committee, subject to certain standard exceptions. As the SP Investors owned more than a majority of the voting power of the Company at the time of the signing of the Voting Agreement, approval of the Nasdaq Proposal was assured (and the Nasdaq Proposal was in fact approved at the special stockholders’ meeting held on June 6, 2023). The STCN Board, acting on the unanimous recommendation of a strategic planning committee of the STCN Board consisting solely of independent and disinterested directors of STCN (the "Strategic Planning Committee"), approved the Transaction. The Strategic Planning Committee exclusively negotiated the terms of the Transaction with Steel Partners, with the assistance of its independent legal counsel and financial advisors, which also issued a fairness opinion with respect to the Transaction.

Stockholder Approval of Reverse/Forward Stock Split

At the special stockholders meeting held on June 6, 2023, the stockholders also approved proposals to amend the Company’s restated certificate of incorporation (the “Charter”), to effect a 1-for-3,500 reverse stock split of the Common Stock (the “Reverse Stock Split”), followed immediately by a 375-for-1 forward stock split of the Common Stock (the “Forward Stock Split,” and, together with the Reverse Stock Split, the “Reverse/Forward Stock Split”). On June 7, 2023, the Board approved the Reverse/Forward Stock Split, and as such, the Board directed the Company to file with the State of Delaware certificates of amendment to our Charter to effectuate the Reverse/Forward Stock Split. Each share of Common Stock held by a stockholder of record owning fewer than 3,500 shares of Common Stock immediately prior to the effective time of the Reverse Stock Split (the “effective time”) will be converted into the right to receive a payment in cash (without interest) equal to the fair value of such shares as of the time when those entitled to receive such payments are determined, which shall be an amount equal to such number of shares of Common Stock held multiplied by the average of the closing sales prices of the Common Stock on Nasdaq for the five consecutive trading days immediately preceding the effective date of the Reverse Stock Split, and each share of Common Stock held by a stockholder of record owning 3,500 shares or more immediately prior to the effective time of the Reverse Stock Split will be converted into a new number of shares of Common Stock based on a ratio of 375 shares of Common Stock for each share of Common Stock owned immediately following the Reverse Stock Split, including any fractional shares owned following the Reverse Stock Split; however, with respect to any fractions of a share of Common Stock that may be held as a result of the Forward Stock Split, stockholders will receive a payment in cash (without interest) equal to the fair value of such fractions as of the time when those entitled to receive such fractions are determined, which shall be an amount equal to such fractions multiplied by the average of the closing sales prices of the Common Stock on Nasdaq for the five consecutive trading days immediately preceding the effective date of the Reverse/Forward Stock Split (with such average closing sales prices being adjusted to give effect to the Reverse/Forward Stock Split).

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 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 Note 1 - "Nature of Operations" and Note 4 - "Discontinued Operations" to the consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q 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 three months ended April 30, 2023 and 2022, the Company's ten largest clients accounted for approximately 85% and 80% of consolidated net revenue, respectively. Two clients accounted for approximately 45% and 11% of the Company's consolidated net revenue for the three months ended April 30, 2023, and two clients accounted for approximately 37% and 12% of the Company's consolidated net revenue for the three months ended April 30, 2022. No other clients accounted for more than 10.0% of the Company's consolidated net revenue for the three months ended April 30, 2023 or 2022.

For the nine months ended April 30, 2023 and 2022, the Company's ten largest clients accounted for approximately 84% and 77% of consolidated net revenue, respectively. Two clients accounted for approximately 43% and 12% of the Company's consolidated net revenue for nine months ended April 30, 2023, and two clients accounted for approximately 30% and 13% of the Company's consolidated net revenue for nine months ended April 30, 2022. No other clients accounted for more than 10.0% of the Company's consolidated net revenue for the nine months ended April 30, 2023 or 2022.

In general, the Company does not have any agreements which 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.

COVID-19 Update

The COVID-19 pandemic (in particular, the emergence of new variants of the virus across the globe) has caused, and may continue to cause, significant disruptions in the U.S. and global economies. Measures taken by national and local governments in the United States and around the world restricted, and in certain jurisdictions continue to restrict, individuals’ daily activities and curtail or cease many businesses’ normal operations. The COVID-19 pandemic has adversely impacted, and may further adversely impact, nearly all aspects of our business and markets, including our workforce and the operations of our clients, suppliers, and business partners.

We experienced disruptions to our business continuity as a result of temporary closures of certain of ModusLink's facilities in 2020 and 2021; however, these temporary closures did not have a significant impact on ModusLink's operations.

Outbreaks in Mainland China throughout 2022 (March to May, July and September to October) led to temporary lockdown orders impacting several ModusLink facilities in China; however, ModusLink was able to resume operations at all facilities and the lockdowns have not had a significant impact to ModusLink's operations through the filing of this Quarterly Report on Form 10-Q. 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 continue to closely monitor the impact of COVID-19 and other disease outbreaks 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 future 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 emergence of new variant strains; the 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 COVID-19 and other disease outbreaks on the Company's employees, business or operations.

Basis of Presentation

The Company has one operating segment which is the same as its 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 allocated to the operations of the Company's operating segment. All significant intra-segment amounts have been eliminated.

Results of Operations

	Three Months Ended April 30, (unaudited in thousands)			
	2023	2022	$ Change[1]	% Change[1]
Net revenue	$46,142	$51,548	$(5,406)	(10.5)%
Cost of revenue	(33,218)	(42,303)	9,085	21.5%
Gross profit	12,924	9,245	3,679	39.8%
Gross profit percentage	28.0%	17.9%	—	1010 bpts
Selling, general and administrative	(12,619)	(9,214)	(3,405)	(37.0)%
Interest expense	(914)	(848)	(66)	(7.8)%
Other gains, net	4,489	2,154	2,335	(108.4)%
Income from continuing operations before income taxes	3,880	1,337	2,543	(190.2)%
Income tax expense	(851)	(11,032)	10,181	92.3%
Net income (loss) from continuing operations	$3,029	$(9,695)	$12,724	131.2%

1 *Favorable (unfavorable) change*

Three months ended April 30, 2023 compared to the three months ended April 30, 2022

Net Revenue:

During the three months ended April 30, 2023, net revenue for the Supply Chain segment decreased by approximately $5.4 million. The decrease in net revenue during the three months ended April 30, 2023 as compared to the same period in the prior year was driven by $4.6 million lower net revenue associated with certain clients in the computing and consumer electronics markets and the medical devices electronics markets due to lower volumes and demand, and loss of certain programs, partially offset by new business revenue. Fluctuations in foreign currency exchange rates had an insignificant impact on the Supply Chain segment's net revenues for the three months ended April 30, 2023, as compared to the same period in the prior year.

Cost of Revenue:

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services, as well as costs for salaries and benefits, depreciation expense, severance, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Total cost of revenue decreased by $9.1 million for the three months ended April 30, 2023, as compared to the same period in the prior year, primarily driven by a decrease in cost of materials as a result of the decrease in the amount of materials procured on behalf of Supply Chain clients. Cost of revenue for the three months ended April 30, 2023 included materials procured on behalf of our Supply Chain clients of $16.2 million, as compared to $24.3 million for the same period in the prior year, a decrease of $8.1 million. The remaining $1.0 million decrease is driven by lower labor costs, such as a decrease in salaries and wages and production costs, and a decrease in buildings and facilities costs.

Gross Profit:

Gross profit percentage for the current quarter increased 1,010 basis points, to 28.0% as compared to 17.9% in the prior year quarter, driven largely by changes in customer sales mix and the decrease in cost of revenue discussed above. Fluctuations in foreign currency exchange rates had an insignificant impact on Supply Chain's gross margin for the three months ended April 30, 2023 as compared to the same period in the prior year.

Selling, General and Administrative Expenses:

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense, marketing expenses, share-based compensation expense, transaction costs, restructuring and public reporting costs. Selling, general and administrative expenses during the three months ended April 30, 2023 increased by approximately $3.4 million as compared to the same period in the prior year primarily due to higher professional and legal fees for Corporate related to the Exchange Transaction. Selling, general and administrative expenses during the three months ended April 30, 2023 for the Supply Chain segment did not change significantly as compared to the same period in the prior year. Fluctuations in foreign currency exchange rates did not have a significant impact on selling, general and administrative expenses for the three months ended April 30, 2023 as compared to the same period in the prior year.

Interest Expense:

Total interest expense increased by $0.1 million during the three months ended April 30, 2023 as compared to the same period in the prior year, primarily due to higher interest expense related to accretion of the discount on the SPHG Note.

Other Gains, Net:

Other gains, net are primarily composed of foreign exchange gains (losses), interest income, sublease income, and other income (expense).

During the three months ended April 30, 2023 and 2022, the Company recorded Other gains, net of $4.5 million and $2.2 million, respectively.

Other gains, net for the three months ended April 30, 2023 was primarily due to: (1) $1.9 million gain from proceeds received from the sale of an investment in Tallan, Inc., (2) $1.4 million settlement with a client; (3) $0.5 million interest income; and (4) $0.3 million foreign exchange gains.

Other gains, net for the three months ended April 30, 2022 was primarily due to foreign exchange gains.

Income Tax Benefit (Expense):

During the three months ended April 30, 2023, the Company recorded income tax expense of approximately $0.9 million as compared to $11.0 million in income tax expense for the same period in the prior fiscal year. The decrease in income tax expense is primarily due to the tax effect of the IWCO disposal during the three months ended April 30, 2022.

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

Net Income (Loss) from Continuing Operations:

Net income (loss) from continuing operations for the three months ended April 30, 2023 increased $12.7 million as compared to the same period in the prior fiscal year, driven by the $10.2 million favorable change in income taxes. Refer to discussion above for further details.

Net Income from Discontinued Operations:

Net income from discontinued operations for the three months ended April 30, 2022 was $39.9 million due to the gain on deconsolidation of IWCO Direct. IWCO Direct was deconsolidated in February 2022, and as such, there was no activity from discontinued operations for the three months ended April 30, 2023. See Note 4 - "Discontinued Operations" to the consolidated financial statements in Part I, Item 1 included of this Quarterly Report on Form 10-Q.

	Nine Months Ended April 30, (unaudited in thousands)			
	2023	**2022**	**$ Change[1]**	**% Change[1]**
Net revenue	$148,283	$150,223	$(1,940)	(1.3)%
Cost of revenue	(108,031)	(120,672)	12,641	10.5%
Gross profit	40,252	29,551	10,701	36.2%
Gross profit percentage	27.1%	19.7%	—	740 bpts
Selling, general and administrative	(33,463)	(28,899)	(4,564)	(15.8)%
Interest expense	(2,588)	(2,359)	(229)	(9.7)%
Other gains, net	4,889	1,614	3,275	(202.9)%
Income (loss) from continuing operations before income taxes	9,090	(93)	9,183	9874.2%
Income tax expense	(1,630)	(12,070)	10,440	86.5%
Net income (loss) from continuing operations	$7,460	$(12,163)	$19,623	161.3%

1 *Favorable (unfavorable) change*

Nine months ended April 30, 2023 compared to the nine months ended April 30, 2022

Net Revenue:

During the nine months ended April 30, 2023, net revenue for the Supply Chain segment decreased by approximately $1.9 million as compared to the same period in the prior year. This decrease in net revenue was driven by overall lower volumes associated with clients in the computing and consumer electronics markets as compared to the same period in the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on the Supply Chain segment's net revenues for the nine months ended April 30, 2023, as compared to the same period in the prior year.

Cost of Revenue:

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services, as well as costs for salaries and benefits, depreciation expense, severance, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Cost of revenue decreased by $12.6 million for the nine months ended April 30, 2023, as compared to the same period in the prior year, driven by the decrease in cost of materials. Cost of revenue for the nine months ended April 30, 2023 included materials procured on behalf of our Supply Chain clients of $56.6 million, as compared to $69.1 million for the same period in the prior year, a decrease of $12.5 million, driven by overall lower volumes and lower costs on programs launched in the prior year period along with lower material costs related to programs that ended during the current year period.

Gross Profit:

Gross profit percentage for the nine months ended April 30, 2023 increased 740 basis points, to 27.1% as compared to 19.7% for the nine months ended April 30, 2022, driven largely by changes in customer sales mix and the decrease in cost of revenue discussed above. Fluctuations in foreign currency exchange rates had an insignificant impact on Supply Chain's gross margin for the nine months ended April 30, 2023.

Selling, General and Administrative Expenses:

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense, marketing expenses, share-based compensation expense, transaction costs, restructuring and public reporting costs. Selling, general and administrative expenses during the nine months ended April 30, 2023 increased by approximately $4.6 million as compared to the same period in the prior year.

Corporate-level activity increased $4.5 million primarily due to higher professional and legal fees related to the Exchange Transaction. Selling, general and administrative expenses during the three months ended April 30, 2023 for the Supply Chain segment did not change significantly as compared to the same period in the prior year. Fluctuations in foreign currency exchange rates did not have a significant impact on selling, general and administrative expenses for the nine months ended April 30, 2023, as compared to the same period in the prior year.

Interest Expense:

Total interest expense during the nine months ended April 30, 2023 increased $0.2 million as compared to the same period in the prior year, primarily due to higher interest expense related to accretion of the discount on the SPHG Note.

Other Gains, Net:

Other gains, net are primarily composed of foreign exchange gains (losses), interest income, sublease income, and other income (expense).

During the nine months ended April 30, 2023 and 2022, the Company recorded Other gains, net of $4.9 million and $1.6 million, respectively.

Other gains, net for the nine months ended April 30, 2023 was primarily due to: (1) $1.9 gain from proceeds received from the sale of an investment in Tallan, Inc., (2) $1.4 million settlement with a client, (3) $0.9 million interest income; and (4) $0.8 million sublease income. These gains were partially offset by $0.5 million foreign exchange losses.

Other gains, net for the nine months ended April 30, 2022 was primarily due to: (1) $1.0 million foreign exchange gains, and (2) $0.5 million sublease income.

Income Tax Expense:

During the nine months ended April 30, 2023, the Company recorded income tax expense of approximately $1.6 million as compared to $12.1 million for the same period in the prior fiscal year. The decrease in income tax expense is primarily due to the tax effect of the IWCO disposal during the three months ended April 30, 2022.

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

Net Income (Loss) from Continuing Operations:

Net income (loss) from continuing operations for the nine months ended April 30, 2023 increased $19.6 million, as compared to the same period in the prior year. The increase in net income from continuing operations is primarily due to the increase in gross profit, a decrease in income tax expense, and an increase in other gains, net, partially offset by an increase in SG&A expenses. Refer to explanations above for further details regarding specific increases or decreases.

Loss from Discontinued Operations:

Net loss from discontinued operations for the nine months ended April 30, 2022 was $0.1 million, and reflects the net loss for IWCO Direct. IWCO Direct was deconsolidated in February 2022, and as such, there was no activity from discontinued operations for the nine months ended April 30, 2023. See Note 4 - "Discontinued Operations" to the consolidated financial statements in Part I, Item 1 included of this Quarterly Report on Form 10-Q.

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 it securities, borrowings from lending institutions and sale of facilities that were not fully utilized. The following table summarizes our liquidity:

	April 30, 2023
	(In thousands)
Cash and cash equivalents	$ 62,738
Readily available borrowing capacity under Umpqua Revolver	11,890
	$ 74,628

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 nine months ended April 30, 2023 relating to this aspect of the U.S. Tax Reform. In future years, the Company will be able to repatriate its foreign earnings without incurring additional U.S. tax as a result of a 100% dividends received deduction. The Company believes that any future withholding taxes or state taxes associated with such a repatriation would not be material.

Consolidated excess working capital was $34.5 million as of April 30, 2023, as compared to $26.0 million at July 31, 2022. Included in excess working capital were cash and cash equivalents of $62.7 million as of April 30, 2023 and $53.1 million at July 31, 2022. The increase in excess working capital was primarily driven by higher cash and cash equivalents due to improved cash provided by operating activities of $9.0 million. Sources and uses of cash for the nine months ended April 30, 2023, as compared to the same period in the prior year, are as follows:

	Nine months ended April 30,	
	2023	2022
	(In thousands)	
Net cash provided by (used in) operating activities	$ 9,000	$ (5,267)
Net cash provided by (used in) investing activities	$ 736	$ (1,142)
Net cash used in financing activities	$ (2,780)	$ (1,652)

Operating Activities: We generated cash of $9.0 million from operating activities during the nine months ended April 30, 2023, an improvement of $14.3 million compared with $5.3 million used in operating activities during the nine months ended April 30, 2022. 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 change in cash provided by operating activities as compared to cash used in operating activities the prior fiscal year was primarily due to an increase in net income, adjusted for non-cash items, of $18.0 million and an increase in accounts receivable collections of $11.7 million, offset by an unfavorable change in other assets and liabilities activity of $9.8 million, and an increase in payments on outstanding accounts payable of $6.0 million.

Investing Activities: Net cash provided by investing activities was $0.7 million during the nine months ended April 30, 2023 and was related to $1.9 million in proceeds received from the sale of an investment in Tallan, Inc., offset by $1.3 million from spend on capital expenditures. Net cash used in investing activities was $1.1 million during the nine months ended April 30, 2022, and was primarily related to capital expenditures .

Financing Activities: Net cash used in financing activities was $2.8 million and $1.7 million during the nine months ended April 30, 2023 and 2022, respectively and primarily consisted of $1.6 million of preferred dividend payments in both periods, as well as $1.1 million of convertible debt repayments related to the SPHG Note during the nine months ended April 30, 2023.

Debt and Financing Arrangements

Following is a summary of Company’s outstanding debt and financing agreements and preferred stock. Refer to Note 9 – “Debt” and Note 16 – “Related Party Transactions” to the consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q 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.

On March 9, 2023, the Company and SPHG Holdings entered into the SPHG Note Amendment. Pursuant to the SPHG Note Amendment, the maturity date of the SPHG Note was extended six months to September 1, 2024. In addition, the Company repaid $1.0 million in principal amount of the SPHG Note and will be required to repay an additional $1.0 million principal amount of the note on the three month anniversary of the SPHG Note Amendment, which occurred on June 9, 2023. In connection with the SPHG Note Amendment, the Company paid SPHG Holdings a cash amendment fee of $0.1 million. The SPHG Note will mature on September 1, 2024, 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 April 30, 2023, outstanding debt consisted of the $13.9 million 7.50% Convertible Senior Note due September 1, 2024. As of July 31, 2022, outstanding debt consisted of the $14.9 million 7.50% Convertible Senior Note due March 1, 2024. As of April 30, 2023 and July 31, 2022, the net carrying value of the SPHG Note was $11.6 million and $11.0 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 and entered into a new credit agreement with Umpqua Bank 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.

On March 13, 2023, ModusLink and Umpqua Bank entered into an amendment to the Umpqua Revolver to extend its expiration date to March 30, 2025. There were no fees associated with the extension.

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.

Series C Convertible 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 (the "Series C Convertible 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 Series C Convertible 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 Series C Convertible 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 Series C Convertible 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 Series C 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 Series C Convertible 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 Series C Convertible 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 Series C Convertible Preferred Stock exercise this right to require the Company to redeem all the Series C Convertible Preferred Stock, the Company’s payment of the redemption price would likely adversely impact the Company’s liquidity and ability to finance its operations. As of April 30, 2023, this right had not been exercised by holders of the Series C Convertible Preferred Stock.

Series E Convertible Preferred Stock

The Company and Steel Partners Holdings L.P., (“Steel Partners”) executed a series of agreements in which Steel Partners and certain of its affiliates (the “Steel Partners Group”) agreed to transfer certain marketable securities held by the Steel Partners Group to STCN in exchange for 3.5 million shares of Series E Convertible Preferred Stock of STCN (the “Series E Convertible

Preferred Stock", and, such transfer the "Transfer and Exchange Agreement"). Upon approval by the STCN stockholders pursuant to NASDAQ Marketplace Rules (the "Stockholder Approval"), the Series E Convertible Preferred Stock will be convertible into an aggregate of 184,891,318 shares of the Company's common stock (the "Common Stock"), and will vote together with the Common Stock and participate in any dividends paid on the Common Stock, in each case on an as-converted basis. As of April 30, 2023, Steel Partners and certain of its affiliates held more than 50% of the beneficial ownership in the Company, and agreed to vote, and did in fact vote at a special meeting of stockholders held on June 6, 2023, in favor of the stockholder proposal relating to the Series E Convertible Preferred Stock. The Series E Convertible Preferred Stock was transferred to the Steel Partners Group on May 1, 2023.

The terms, rights, obligations and preferences of the Series E Convertible Preferred Stock are set forth in a Certificate of Designations, Preferences and Rights of Series E Convertible Preferred Stock of the Company (the "Series E Certificate of Designations"), which are summarized below:

Any holder of the Series E Convertible Preferred Stock ("Holder"), may, at its option, convert all or any shares of Series E Convertible Preferred Stock held by such Holder into Common Stock based on a conversion price of $1.10 (the "Conversion Price") per share, subject to appropriate adjustments for any stock dividend, stock split, stock combination, or similar transaction by delivering to the Company a conversion notice.

Holders are entitled to participate equally and ratably with the holders of shares of Common Stock in all dividends or other distributions on the shares of Common Stock as if, immediately prior to each record date for payment of dividends or other distributions on the Common Stock, shares of the Series E Convertible Preferred Stock then outstanding were converted into shares of Common Stock. Dividends or other distributions payable will be payable on the same date that such dividends or other distributions are payable to holders of shares of Common Stock, and no dividends or other distributions will be payable to holders of shares of Common Stock unless dividends or such other distributions are also paid at the same time in respect of the Series E Convertible Preferred Stock.

Upon the occurrence of certain triggering events such as a liquidation, dissolution or winding up of the Company, either voluntary or involuntary, any merger or consolidation in which the Company is a constituent party or a Significant Subsidiary is a constituent party and the Company issues shares of its capital stock pursuant to such merger or consolidation such that the stockholders of the Company prior to such merger or consolidation hold less than 50.0% of the aggregate voting securities of the Corporation following such merger or consolidation, or the sale of substantially all of the assets or capital stock of the Company or a significant subsidiary (collectively, or any of these, a "Liquidation Event(s)"), the holders of the Series E Convertible 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 Common Stock by reason of their ownership thereof, an amount per share in cash equal to $58.1087 (as adjusted for any stock split, stock dividend, stock combination or other similar transactions with respect to the Series E Convertible Preferred Stock ("the Series E Convertible Preferred Stock Liquidation Preference"). In the event that the Series E Convertible Preferred Stock Liquidation Preference is not paid with respect to any shares of Series E Convertible Preferred Stock as required to be paid, such shares shall continue to be entitled to dividends and all such shares shall remain outstanding and entitled to all the rights and preferences provided within the Series E Certificate of Designations.

The Company nor the Holder have any rights to redeem the Series E Convertible Preferred Stock.

Prior to obtaining the Stockholder Approval, the Series E Convertible Preferred Stock will be non-voting and will not have the right to vote on any matters presented to the stockholders of the Company. Following the date on which Stockholder Approval is obtained, each Holder shall be entitled to vote with holders of outstanding shares of Common Stock, voting together as a single class, with respect to any and all matters presented to the stockholders of the Company for their action or consideration (whether at a meeting of stockholders of the Company, by written action of stockholders in lieu of a meeting or otherwise), except as provided by law. In any such vote, each Holder shall be entitled to a number of votes equal to the largest number of whole shares of Common Stock into which all shares of Series E Convertible Preferred Stock held of record by such Holder is convertible as of the record date for such vote or written consent or, if there is no specified record date, as of the date of such vote or written consent.

Steel Connect, Inc.

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 holder of the Series C Convertible 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 under the Umpqua Revolver 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.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates Update

During the three months ended April 30, 2023, there were no significant changes to the items that we disclosed as our critical accounting policies and estimates in the "Critical Accounting Estimates" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2022.

The Company's Condensed Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles, which require us to make estimates and assumptions that affect the amounts reported in the financial statements. The critical accounting policies and estimates that we believe are most critical to the portrayal of our financial condition and results of operations are reported in the "Critical Accounting Policies" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2022.

Item 3. 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 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the 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 April 30, 2023.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended April 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth under Note 10 - "Contingencies" to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Quarterly Report on Form 10-Q, is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, also see Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022.

Item 1A. Risk Factors.

In addition to the risks and uncertainties discussed in this Quarterly Report on Form 10-Q, particularly those disclosed in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, see "Risk Factors" in the Company's Annual Report on Form 10-K for fiscal year ended July 31, 2022. There have been no material changes from the risk factors previously disclosed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2022, except as set forth below:

RISKS RELATED TO OUR BUSINESS, OPERATIONS AND INDUSTRY

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. Additionally, following the issuance of the Series E Convertible Preferred Stock, which further consolidated control in Steel Partners Group, it may be more challenging for us to raise equity financing or to use our equity as acquisition consideration, which may in turn hamper our ability to complete acquisitions. For more information, see “RISKS RELATED TO OUR BUSINESS, OPERATIONS AND INDUSTRY—We may have problems raising or accessing capital we need in the future” in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

Steel Partners and its affiliates own the vast majority of the voting power of our capital stock and have control over our corporate decisions.

The Steel Partners Group (as defined above) beneficially owns 85.12% of the outstanding equity interests of the Company, taking into account 17,857,143 shares of Common Stock underlying Series C Convertible Preferred Stock and 184,891,318 shares of Common Stock underlying Series E Convertible Preferred Stock, which vote on an as-converted basis together with our Common Stock, and 5,872,441 shares of common stock underlying the SPHG Note, which do not vote on an as-converted basis together with our Common Stock. In addition, two of our board members include the Executive Chairman of the general partner of Steel Partners and the President of Steel Partners.

As a result of this board representation and ownership of our capital stock, Steel Partners and its affiliates control our management and affairs and/or control most matters requiring stockholder approval, including the election of directors, the removal of directors, the passage of a tax benefits preservation plan, a business combination and most and possibly all 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. Additionally, minority stockholders could not call a special meeting, as this requires at least 20% of the total voting power of the Company. The Steel Partners Group 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 16 of the accompanying notes to the consolidated financial statements in this Quarterly Report on Form 10-Q for additional information.

RISKS RELATED TO REVERSE/FORWARD STOCK SPLIT

We cannot assure you that the Reverse/Forward Stock Split will increase the price of our Common Stock and have the desired effect of maintaining compliance with Nasdaq.

Our Board of Directors expects that the Reverse/Forward Stock Split, which was approved by stockholders at the special stockholders’ meeting on June 6, 2023, will increase the market price of our Common Stock so that we are able to maintain compliance with the Nasdaq rules. However, the effect of the Reverse/Forward Stock Split upon the market price of our Common Stock cannot be predicted with any certainty, and the history of similar stock splits for companies in like circumstances is varied.

It is possible that (i) the per-share price of our Common Stock after the Reverse/Forward Stock Split will not rise in proportion to the reduction in the number of shares of our Common Stock outstanding resulting from the Reverse/Forward Stock Split, (ii) the market price per post-Reverse/Forward Stock Split share may ultimately not exceed or remain in excess of the $1.00 minimum bid price for a sustained period of time, or (iii) the Reverse/Forward Stock Split may not result in a per-share price that would attract brokers and investors who do not trade in lower priced stocks. Even if the Reverse/Forward Stock Split is implemented, the market price of our Common Stock may decrease due to factors unrelated to the Reverse/Forward Stock Split. In any case, the market price of our Common Stock will be based on other factors which may be unrelated to the number of shares outstanding, including our future performance, general market conditions and prospects for future success. If the trading price of our Common Stock declines after the Reverse/Forward Stock Split is implemented, the percentage decline as an absolute number and as a percentage of our overall market capitalization may be greater than would occur in the absence of the Reverse/Forward Stock Split. Even if the market price per post-Reverse/Forward Stock Split share of our Common Stock remains in excess of $1.00 per share, we may be delisted due to a failure to meet other continued listing requirements, including Nasdaq rules related to the minimum market value of the public float.

A decline in the market price of our Common Stock after the Reverse/Forward Stock Split is implemented may result in a greater percentage decline than would occur in the absence of a reverse stock split.

If the market price of our Common Stock declines after the Reverse/Forward Stock Split, the percentage decline may be greater than would occur in the absence of the Reverse/Forward Stock Split. The market price of our Common Stock will, however, also be based upon our performance and other factors, which are unrelated to the number of shares of Common Stock outstanding.

The Reverse/Forward Stock Split may decrease the liquidity of our Common Stock.

Although our Board believes that the decrease in the number of shares of our Common Stock outstanding as a consequence of the Reverse/Forward Stock Split and the anticipated increase in the market price of our Common Stock could encourage interest in our Common Stock and possibly promote greater liquidity for our stockholders, such liquidity could also be adversely affected by the reduced number of shares outstanding after the Reverse/Forward Stock Split. The liquidity of our Common Stock may be harmed by the Reverse/Forward Stock Split given the reduced number of shares of Common Stock that would be outstanding after the Reverse/Forward Stock Split, particularly if the stock price does not increase as a result of the Reverse/Forward Stock Split.

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

a. None.

b. Not applicable.

c. None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

a. Not applicable.

b. Not applicable.

c. Not applicable.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Certificate of Designations, Preferences and Rights of the Series E Convertible Preferred Stock of Steel Connect, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 1, 2023).
3.2	Certificate of Elimination of the Series A Junior Participating Preferred Stock of Steel Connect, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 2, 2023).
4.1	Amendment No. 1 to Convertible Note dated March 9, 2023 (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2023).
10.1	First Amendment to Credit Agreement dated March 13, 2023 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2023).
10.2	Transfer and Exchange Agreement, dated as of April 30, 2023, by and among Steel Partners Holdings L.P., Steel Excel, Inc., WebFinancial Holding Corporation and Steel Connect, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 1, 2023).
10.3	Stockholders' Agreement, dated as of April 30, 2023, by and among Steel Connect, Inc., Steel Partners Holdings L.P., and the other stockholders signatory therein (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on May 1, 2023).
10.4	Voting Agreement, dated as of April 30, 2023, by and among Steel Connect, Inc., Steel Partners Holding L.P., WebFinancial Holding Corporation, WHX CS, LLC, WF Asset Corp., Steel Partners, Ltd., Warren G. Lichtenstein, and Jack L. Howard (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on May 1, 2023).
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*	The following financial information from Steel Connect, Inc.'s Quarterly Report Form 10-Q for the quarter ended April 30, 2023 formatted in Inline XBRL: (i) Unaudited Condensed Consolidated Balance Sheets as of April 30, 2023 and July 31, 2022, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended April 30, 2023 and 2022, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended April 30, 2023 and 2022, (iv) Unaudited Condensed Consolidated Statements of Stockholders' (Deficit) Equity for the three and nine months ended April 30, 2023 and 2022, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended April 30, 2023 and 2022 and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

± Furnished herewith.

SIGNATURES

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

STEEL CONNECT, INC.

Date: June 12, 2023	By:	/S/ JASON WONG
		Jason Wong
		Chief Financial Officer
		(Principal Financial Officer and Authorized Signatory)

Exhibit 31.1

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

I, Warren Lichtenstein, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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: June 12, 2023

By: /S/ WARREN LICHTENSTEIN

Warren Lichtenstein
Interim Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Jason Wong, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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: June 12, 2023

By: /S/ JASON WONG

Jason Wong
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 Quarterly Report on Form 10-Q of Steel Connect, Inc. (the “Company”) for the fiscal quarter ended April 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Warren Lichtenstein, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(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: June 12, 2023

By: /S/ WARREN LICHTENSTEIN

Warren Lichtenstein
Interim Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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 Quarterly Report on Form 10-Q of Steel Connect, Inc. (the “Company”) for the fiscal quarter ended April 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Jason Wong, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(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: June 12, 2023

By: /S/ JASON WONG

Jason Wong
Chief Financial Officer
(Principal Financial Officer)